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European Neighbourhood and Partnership Instrument

REPUBLIC OF MOLDOVA

NATIONAL INDICATIVE PROGRAMME

2011-2013

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List of abbreviations

<i>AAP</i>	<i>Annual action programme</i>
<i>CBMs</i>	<i>Confidence-building measures</i>
<i>CIB</i>	<i>Comprehensive institution building programme under the Eastern Partnership</i>
<i>CSOs</i>	<i>Civil society organisations</i>
<i>CSP</i>	<i>Country strategy paper</i>
<i>DAC</i>	<i>OECD's Development Assistance Committee</i>
<i>DCFTA</i>	<i>Deep and comprehensive free trade agreement</i>
<i>EC</i>	<i>European Commission</i>
<i>EIDHR</i>	<i>European Initiative for Democracy and Human Rights</i>
<i>EU</i>	<i>European Union</i>
<i>ENP</i>	<i>European Neighbourhood Policy</i>
<i>ENPI</i>	<i>European Neighbourhood and Partnership Instrument</i>
<i>EUBAM</i>	<i>EU Border Assistance Mission to Moldova and Ukraine</i>
<i>FDI</i>	<i>Foreign direct investment</i>
<i>FSP</i>	<i>Food Security Programme</i>
<i>GDP</i>	<i>Gross domestic product</i>
<i>IFC</i>	<i>International Finance Corporation</i>
<i>IFIs</i>	<i>International financial institutions</i>
<i>IMF</i>	<i>International Monetary Fund</i>
<i>MDG</i>	<i>Millennium Development Goals</i>
<i>Moldova</i>	<i>Republic of Moldova (for the purposes of this document)</i>
<i>MTEF</i>	<i>Medium-Term Expenditure Framework</i>
<i>MTR</i>	<i>Mid-term review</i>
<i>NDP</i>	<i>Moldova's National Development Plan (2008)</i>
<i>NDS</i>	<i>Moldova's National development strategy (2008)</i>
<i>NIP</i>	<i>National indicative programme</i>
<i>OECD</i>	<i>Organisation for Economic Cooperation and Development</i>
<i>PCA</i>	<i>Partnership and cooperation agreement</i>
<i>PFM</i>	<i>Public financial management</i>
<i>SIGMA</i>	<i>Sigma programme (a joint initiative of the EU and the OECD, principally financed by the EU, to support partner countries in their public administration reform efforts).</i>
<i>SME</i>	<i>Small and medium-sized enterprise</i>
<i>TAIEX</i>	<i>EC's Technical Assistance and Information Exchange Instrument</i>

INTRODUCTION: THE MID-TERM REVIEW

A Country Strategy Paper for EC assistance to Moldova during the period 2007-2013 was approved in late 2006 together with a multi-annual National Indicative Programme for bilateral assistance under the ENPI, covering the period 2007-2010. Annual Action Programmes (AAP) were further developed under the NIP 2007-2010. The AAP 2010 is currently in preparation.

In early 2009, the CSP mid-term review (MTR) concluded that while there had been significant developments¹, and more were expected, both in Moldova and in the relationship between the EU and Moldova, they broadly followed the lines anticipated in the CSP 2007-2013 and, in the absence of significant changes in the internal policy framework and the legal framework for EU-Moldova relations, the response strategy set out in the CSP remained relevant. The MTR analysis drew on the findings and conclusions of the regular cooperation fora with Moldova, ENP Progress Reports and the Country Evaluation conducted in the autumn of 2007. It also took into consideration the impact on the EC's response strategy of the development of new EC/EU policies since the publication of the CSP.

In particular, Moldova intends to play a full role in the Eastern Partnership, launched in Prague in May 2009, which offers the possibility for deeper relations between the EU and its six neighbouring Eastern countries. The CSP 2007-2013 can fully accommodate the priorities of the Eastern Partnership. The principal CSP objectives over the period 2007-2013 are:

- to develop an increasingly close relationship between the EU and Moldova, going beyond past levels of cooperation, to a deepening of political cooperation and contributing to the resolution of the conflict in Transnistria, and
- to promote economic growth and poverty reduction on the basis of the Partnership and Cooperation Agreement (PCA), the EU-Moldova Action Plan, and Moldova's national development strategies.

A combination of country-specific, regional and global strategic objectives inform the approach taken in the CSP to cooperation with Moldova:

- *A mutually beneficial partnership promoting Moldova's reform agenda*

The EU and Moldova committed themselves in the PCA to a partnership that provides for close political and mutually beneficial trade and investment relations as well as broad sectoral cooperation.

- *Implementing the ENP and the EU-Moldova Action Plan*

The objective of the ENP is to share the EU's stability, security and prosperity with neighbouring countries, in a form distinct from EU membership. The EU and Moldova agreed to specific objectives in an Action Plan endorsed on 22 February 2005.

¹ Among other things, as a consequence of robust economic growth since 2001, Moldova has been upgraded from the group of low-income countries to the group of lower-middle income countries in the DAC list of recipient countries.

In May 2009 the EU and six Eastern neighbouring countries, including Moldova, agreed to develop a specific Eastern dimension of the European Neighbourhood Policy, the Eastern Partnership.²

- *Security challenges*

The ENP also addresses one of the strategic objectives set out in the European Security Strategy of December 2003, namely bolstering security in the EU neighbourhood. In this context the EU attaches great importance to cooperation with Moldova in resolving the Transnistria conflict.

- *Development policy objectives*

EU development policy is driven by the overriding aim of reducing poverty and the complementary aims of promoting good governance and respect for human rights. With Moldova having one third of Albania's GDP and the lowest GDP per capita in Europe, account must be taken of development policy objectives in defining cooperation objectives with Moldova, as defined in the NDS 2008, which is fully compatible with the EU-Moldova Action Plan.

Domestic developments

Between 2001 and 2009, Moldova was run by parliamentary majorities dominated by the Communist Party of the Republic of Moldova. In 2009, after a long electoral contest that resulted in a serious breakdown in the rule of law and led to repeat elections in July 2009, the parliamentary elections yielded a new majority, the 'Alliance for European Integration', which appointed a new government in September 2009. Both the previous governments (which endorsed and started implementing the EU-Moldova Action Plan 2005) and the newly elected majority have backed a European integration agenda that has been used as a lever for domestic political, economic and social reforms.

Moldova has a track record of respect for certain democratic norms. Local and parliamentary elections have been generally held in an orderly manner since Moldova's independence.³ Moldova to date remains the only CIS state where every single transition of power — including the one in August 2009 — has taken place peacefully after contested elections, rather than through staged successions or a 'coloured revolution'.

Although Moldova has made substantive progress in most areas of the Action Plan, weaknesses have been repeatedly highlighted, including in the Commission's ENP Progress Report 2008⁴, with regard to the state of democracy, the rule of law, respect for human rights including media freedom and minority rights, the fight against corruption, and the issue of trafficking in human beings. Moreover, the EU and other bodies such as the OSCE/ODHIR and the Venice Commission of the Council of Europe have criticised negative trends in electoral laws. Key reforms clearly remain to be pursued in those areas to further support the democratic evolution of Moldova's political system and its ability to sustain cooperation with the European Union.

² Joint Declaration of the Prague Eastern Partnership Summit, Prague, 7 May 2009.

³ Under its present Constitution Moldova is a parliamentary republic. Its President is elected by the Parliament.

⁴ Commission Staff Working Document SEC(2009) 514/2 of 23 April 2009.

At the same time, many of the concerns spontaneously raised by civil society, which is progressively taking root in Moldova⁵, relate to outstanding human rights issues. The abuses reportedly perpetrated in the aftermath of the April 2009 parliamentary elections highlighted among other things the problem of torture and ill-treatment of detainees. In close cooperation with the Council of Europe, the Commission is providing an immediate response in the form of Stability Instrument assistance. In the medium term the capacity of the state institutions to uphold democratic standards in a sustainable manner needs to be decisively reinforced and the outstanding human rights concerns need to be further addressed, also by being mainstreamed in all programmes developed under the CSP 2007-2013.

Intense parliamentary activity over the last four-year legislature led to many important reform laws being adopted. Nonetheless, Moldova made no or only limited progress in the effective implementation of key priorities under the EU-Moldova Action Plan. These include in particular some market and regulatory issues, the fight against corruption, drugs and trafficking in human beings, or reforms in sectors such as energy and the environment. Inadequate allocation of resources, delays in adopting secondary legislation or insufficient political backing constituted lasting impediments to the implementation of internal reforms.

With a GDP per capita of €1 000 per annum, about 30% of the population of Moldova ('the poorest country in Europe') live in absolute poverty and 4.5% live in extreme poverty. Social spending thus remains a major component of public expenditure. Two thirds of Moldova's state budget is spent on health, education and social assistance. In this context, Moldova's basic economic and social priorities have remained steadily focused on reducing poverty levels and stimulating economic activity to sustain rapidly increasing social commitments. There is a well-developed National Development Strategy 2008-2011, together with an implementation plan and monitoring system (collectively referred throughout this document as the National Development Plan), which builds on the reforms achieved under the previous Economic Growth and Poverty Reduction Strategy Paper.⁶

Moldova's growth model in previous years was based on the transfer of resources from abroad to accommodate fast-growing domestic investment and demand.⁷ This approach failed in 2008 as a direct consequence of the economic crisis combined with strong wage growth, an expansive fiscal policy and an accommodative monetary policy ahead of the April 2009 parliamentary elections.⁸ As a result, the trade deficit widened while trade growth decelerated and remittances and FDI inflows fell significantly.

Indeed, Moldova has been one of the countries in the EU's Eastern neighbourhood hit hardest by the global recession. GDP in 2009 is expected to shrink by 9% at least,

⁵ The new Moldovan government has signalled its willingness to work closely with civil society on the design and implementation of certain reforms. Non-governmental organisations were invited to design a new National Human Rights Action Plan following the repeal in October 2009 of the plan adopted by the previous government in January 2009.

⁶ The PRSP 2003-2007 was agreed with the IFIs with a view to concluding a Poverty Reduction and Growth Facility financing arrangement with the IMF, which expired in May 2009.

⁷ Moldova's economy depends on remittances for one third of its €4 billion GDP. Remittances decreased by 34% in the first half of 2009.

⁸ This, together with the budget performance in 2008, prevented the authorities from drawing the last two instalments under the Poverty Reduction and Growth Facility.

which is in sharp contrast with the +7.2% GDP growth of 2008. External shocks due to the crisis, such as falling trade, remittances and FDI inflows, are the main causes of the deep recession. The unemployment rate is rising rapidly, jeopardising the country's social achievements. The fiscal situation has deteriorated quickly since the middle of 2008, despite the expenditure cuts of 20% across the board decided in spring 2009.⁹ All in all, the government deficit is expected to deteriorate in 2009, to around 8.5% of GDP (as against 1% in 2008).

In this context, the main risk for the government is the need to provide social support to returning jobless citizens. Moreover, the fact that Moldova is a poor country makes the impact of the economic recession on living standards more acute.

Moldova's economy is very open: total foreign trade turnover far exceeds GDP. Not surprisingly, the development of exports as a medium-term strategy, together with diversification of export destinations, remains high on the new government's agenda. Improving access for Moldova's exports to EU markets and taking advantage of the preferential trade arrangements offered by the EU are at the centre of this strategy.

Under the reform agenda, the main priority for Moldova at this stage is to provide adequate policy responses to cushion the impact of the global crisis on the economy and to revive growth (seeking international financial support to underpin the recovery), improve further the management of public finances. To this end, the crisis will provide an opportunity to give new impetus to a number of essential policy objectives, including the enhancement of trade and regional integration, and in-country and international political dialogue on economic governance.¹⁰ In the shorter run, the Moldovan authorities need to address a number of structural reforms, including in the fiscal, financial and utilities sectors, which were postponed in 2008 and most of 2009 due to the electoral contest.

Developments in EU-Moldova relations

As a global player, the EU promotes its norms, values and interests through various instruments, ranging from the Common Foreign and Security Policy (CFSP), assistance and trade to the external dimension of the EU's internal policies. In particular, the EU strives to promote prosperity, solidarity, security and sustainable development worldwide.

With the prospect of a new bilateral agreement¹¹, political dialogue between the EU and Moldova has significantly deepened since the approval of the current CSP. Consultations have taken place between the Moldovan government and the EU Political and Security Committee, the Council Working Party on Eastern Europe and Central Asia, and the Political Directors Troika. Also, Moldova has cooperated constructively with the EU on all questions related to the Transnistria settlement efforts. The new government of the 'Alliance for European Integration', sworn into office in September 2009, was elected on a strong pro-European agenda.

⁹ The latest budget figures for 2009 reveal substantial revenue shortfalls (reflecting the strong reduction in imports as a key source of budget revenue).

¹⁰ As suggested by the EU response strategy to the financial and economic crisis in developing countries.

¹¹ In June 2009 the Council adopted directives for the Commission to negotiate such an Agreement (Council Conclusions on the Republic of Moldova, 15 June 2009). Negotiations are scheduled to start in January 2010.

The new Agreement will enhance EU-Moldova relations across all areas of cooperation, and provide for establishing a deep and comprehensive free trade area (DCFTA) with the EU, if and when Moldova is deemed to be ready to cope with the impact of far-reaching liberalisation and to take on the related commitments.¹² At the same time, the EU-Moldova Action Plan will continue in force pending the end of negotiations: while the legal framework for EU-Moldova relations remains very stable, deeper changes are in the making.

There have been major developments within the bilateral framework since the adoption of the present CSP. Comprehensive Autonomous Trade Preferences, which give Moldova duty-free and quota-free access to EU markets for nearly all products, were granted to Moldova in March 2008. An important step towards the integration of Moldova within the EU civil aviation safety system was made in July 2009 with the signing of the Working Arrangement between the European Aviation Safety Agency and the civil aviation authorities of Moldova. In energy, against the backdrop of an active policy dialogue with the Commission that shaped the National Energy Strategy adopted in 2008, Moldova successfully completed negotiations for its accession to the Energy Community. A decision on accession is foreseen at the Energy Community Ministerial meeting in December 2009. The environment sector is also undergoing EU-linked reforms, with the ongoing revision of the 1993 framework law on environmental protection to ensure future convergence with EU legislation in a number of sub-sectors. And in May 2008 Moldova requested association to the Seventh Framework Programme for Research and Technological Development, based on the policy to open EU programmes to ENP countries.

Cooperation with the EUBAM mission intensified significantly after a new Moldova/Ukraine customs regime acknowledging the unity of Moldova's customs territory was introduced in the course of 2006, highlighting the need for capacity building in the customs and the border guard services and to upgrade the relevant infrastructure, including information and communication systems.

Moldova is also covered by the Black Sea Synergy, a regional cooperation initiative covering the Eastern ENP countries (with the exception of Belarus) as well as the Russian Federation and Turkey. The Black Sea Synergy is an EU sea-basin inclusive initiative aiming to solve problems that require region-wide efforts. Implementation of the Black Sea Synergy involves, among other things, the establishment of sector partnerships, like the one concerning environment (to be launched soon). Other cooperative schemes are also being explored in maritime management, fisheries, migration, the fight against organised crime, the information society and cultural cooperation. To support these efforts, the EU has established a new cross-border cooperation programme involving local authorities in the countries around the Black Sea, and supporting the activities of civil society organisations.

Finally, as already mentioned, the Eastern Partnership was launched in May 2009, offering the opportunity for deeper relations between the EU and six neighbouring Eastern countries, including Moldova, as well as between them. Moldova has recently confirmed its interest in the Comprehensive Institution Building programme and the new flagship initiatives envisaged by the Partnership.

Due to its geography and the size of its migration flows compared to its total population, Moldova is probably the EU's Eastern neighbour with the highest intensity

¹² Moldova has been a member of the WTO since 2001.

of people-to-people interaction with the EU. Visa Facilitation and Readmission Agreements entered into force in January 2008. A pilot Mobility Partnership was signed in June 2008 and is being actively implemented together with the EC and some EU Member States. Cooperation on migration issues is already being supported by various programmes and donors, but the related issues of labour market reform and education will require specific attention.

Besides migration, other key horizontal issues that are either new or to which the EU has made specific commitments create new scope and opportunities for cooperation without calling into question the response strategy set out in the CSP 2007-2013:

- *Aid-for-trade*: Moldova is one of the EU neighbours most dependent on EU trade, despite the size of the bill for energy imports from Russia. The progress achieved, as mentioned earlier, in implementing the Autonomous Trade Preferences, and the objective of establishing a deep and comprehensive free trade area with the EU call for greater assistance in the area of trade, with a stronger focus on trade-related issues, including harmonisation of the quality assurance infrastructure and standards with EU law and best practice.
- *Climate change*: Moldova has consistently supported efforts in international fora for the mitigation of climate change, but has failed so far to implement the relevant provisions of the Kyoto Protocol. At the same time, it needs to prepare for the implementation of the post-Kyoto agreement. Given the country's high proportion of vulnerable poor, the impact of climate change on the population also deserves particular attention. Climate change is also addressed in the ENPI Regional Programme.
- *Energy*: Moldova's energy situation is characterised by a lack of energy resources, rising domestic demand, and preparation for accession to the Energy Community. This, along with Moldova's rising profile as a transit country for energy supplies to the Balkan region, poses a number of important challenges — including the issues of energy efficiency, renewable energy and diversification of supplies. Energy is also addressed in multilateral cooperation under the Eastern Partnership and the ENPI Regional programme.
- *High food prices*: Rising food prices in 2007-2008 have had a significant and lasting impact on the social situation of the large number of vulnerable poor in the country. This underlines the importance of poverty reduction and the need to improve the efficiency of social protection policies, identified as a priority in the CSP 2007-2013. The present programme should therefore try to consolidate past cooperation experience in that field.
- *The fight against illegal drugs trafficking*: The recent increase in drug trafficking through Moldova, as evidenced by significant seizures and the dismantling of illicit laboratories in recent years, contributes to criminality in the region and has led to an increase in injecting drug users locally, with serious social and public health consequences. This issue is covered in the ENP Action Plan, and has been supported accordingly by regional ENPI programmes as well as under the Eastern Partnership, within the Integrated Border Management programme. The end of the main regional programmes in 2008 points to the importance of addressing drugs priorities in bilateral cooperation, since this will not be covered by the multilateral Eastern Partnership programme.

- *Confidence-building measures and possible post-settlement assistance in the context of the Transnistria issue:* The Georgia crisis of August 2008 created new challenges in the region, triggering the need for stronger engagement by the EU.¹³ This aspect is all the more relevant since the chances of a peaceful settlement of the Transnistria conflict may be considered greater than when the original CSP was designed. There has therefore been some reflection on the approach to be taken to ensure that EC assistance to Moldova can be used efficiently to fund confidence-building projects on the ground.

Lessons learnt

The last Country Evaluation¹⁴ and experience on the ground since 2007 suggest that Moldova has not always been an easy partner when it comes to technical and financial cooperation. While EC assistance has helped significantly advance policy formulation in key Action Plan areas — such as justice and home affairs, SME development, trade and FDI promotion, or the environment — this progress has been hardly matched by tangible outcomes — with, for instance, disappointing private sector development¹⁵, underdeveloped export potential to Europe, growing but modest FDI, few achievements in the field of the environment, or, more importantly, the persistence of corruption.¹⁶

At the same time, the new perspectives in EU-Moldova relations and Moldova's renewed commitment to European integration give rise to many new opportunities. The next few years will provide a unique window of opportunity for both the EU and Moldova to set the pace for modernising efforts, consolidate the country's democratic transition, and help in the longer run stabilise this immediate neighbour of the EU.

The example of public financial management reform, an area where substantial progress was achieved in the very short period of time since the Country Evaluation, demonstrates that adequate attention and assistance can yield concrete results over time. For instance, MTEF preparation, which started in Moldova in 2002 as a condition for implementation of an EC-funded Food Security Programme, and was accompanied by intensive technical assistance and capacity building in the ministries concerned, made little progress until 2006, when projections only covered two sectors (health and social assistance). In the last two years (MTEFs 2008-2010 and 2009-2011) the number of sectors has increased to 12. The introduction of budget support in EC assistance to Moldova and the related dialogue on aid conditionality, initiated in 2008, has without doubt been a strong incentive to accelerate reform in that field after the successful outcome of FSP assistance. Conversely, the nature and functioning of budget support can now be said to be well understood by relevant stakeholders. Still, the recommendation in the last Country Evaluation's to raise the government's awareness of the conditions for budget support remains valid in that more progress is needed in the PFM area, which is duly taken into account in the NIP 2011-2013.

¹³ Conclusions of the 2896th General Affairs and External Relations Council meeting on relations with the Republic of Moldova, 13 October 2008.

¹⁴ Country Level Evaluation Report, November 2007.

¹⁵ As an indication, Moldova ranks 94th (out of 183 countries) in the World Bank/IFC Doing Business survey 2010.

¹⁶ As to this last point, the recommendation of the Country Evaluation, to 'decentralise' the treatment of corruption cases, will have to be taken into consideration in designing actions for judicial and law enforcement reforms under this programme.

This example also demonstrates the value of continuity and consistency in assisting key reforms over several programming periods and across various assistance instruments.

The importance of continuity for completing essential reforms launched under the previous NIP was duly taken into consideration in the MTR, given the positive assessment of the progress achieved by Moldova in the ongoing budget support operations in the fields of health, social protection, and water sector reform, as evidenced by the high rate of disbursement and consultations with the project managers and local CSOs involved in the fields concerned.

More generally, and as recommended in the conclusions of the last Country Evaluation, particular attention has been devoted, in developing this programming document, to the division of labour and the advantages of the various donors. On-site consultations and the donor matrix were used to identify areas where the EC could act on its own and those where close coordination at the programming and implementation stages was essential.

As regards Transnistria, the implementation principle for the previous NIP was to encourage Moldovan stakeholders to channel part of EC assistance to their Transnistrian counterparts in the form of direct right-bank/left-bank confidence-building operations. This did not yield visible results. In 2009, in line with one of the recommendations of the country-level evaluation, the EC launched, on a pilot basis, confidence-building projects with easily identifiable social and development impacts, involving CSOs from both conflict sides as well as, in some instances, EU-based CSOs, funded by specific allocations. While these initiatives are recent and conclusions cannot be drawn at this stage regarding their efficiency, it must be noted that this new approach has allowed concrete activities to be launched on the ground, to the satisfaction of both sides. This alone should justify specific allocations to implement, whenever possible, small-scale projects bringing together right-bank and left-bank implementers around shared objectives.¹⁷

¹⁷ The Country Evaluation 2007 recommends focusing on people-to-people social and development activities. In 2009, pilot projects could be launched in the health and environment sectors.

THE NATIONAL INDICATIVE PROGRAMME 2011-2013

1. Main priorities and goals

Under this National Indicative Programme, assistance will focus on the following priority areas and programmes (sub-priorities), which reflect the extent of our cooperation with Moldova as well as the EU's leading position in providing assistance to Moldova:

Priority Area 1: Good governance, rule of law and fundamental freedoms

Sub-priority area 1: Rule of law, human rights and security

Sub-priority area 2: Public administration reform

Sub-priority area 3: Facilitation of new EU-Moldova Agreement

Priority Area 2: Social and human development

Sub-priority area 1: Social protection

Sub-priority area 2: Health system reform

Sub-priority area 3: Labour market reform & education

Priority Area 3: Trade and sustainable development

Sub-priority area 1: Facilitation of deep and comprehensive FTA

Sub-priority area 2: Regional and local development

Sub-priority area 3: Environment & energy efficiency / renewable energy and diversification

The extensive cooperation between the partner country and the EU, based on the Eastern Partnership policy framework and existing and possible future contractual relations, requires that the ENPI NIP covers a relatively broad range of areas. The NIP priority areas included in this programme should be addressed during the programming period 2011-2013. However, the indicative nature of this programme provides certain flexibility regarding the implementation of sub-priorities. The identification process for Annual Action Programmes provides an opportunity to assess the suitability and timeliness of addressing sub-priorities and to adapt the proposed measures to the evolution of EU policies and sector developments. In this process, care should be taken to ensure implementation of those sub-priorities of key importance for deepening the relationship with the EU in the context of the Eastern Partnership.

Depending on developments during the programming period regarding the settlement of the Transnistria issue, the EC will provide specific assistance, within the overall resources available, for all aspects of conflict settlement and consolidation of the results.

2. Indicative budget

Under this NIP 2011-2013, Moldova will receive €273.14 million from the European Neighbourhood and Partnership Instrument (ENPI). This includes the €41.16 million earmarked for the Eastern Partnership Comprehensive Institution Building programme (CIB), which is an 'Agreement-driven' programme intended to assist Moldova with institution building for a number of core institutions that are central in preparing the ground for and implementing the future EU-Moldova Agreement. In case the CIB cannot be agreed or its implementation is delayed, the earmarked funds will be fully or partly reallocated to other programmes. In addition, €6.98 million have been reserved for Cohesion Policy.

Priority area	Allocation
<i>Priority area 1:</i>	
<i>Good governance, rule of law and fundamental freedoms</i>	35-40 %
<i>Priority area 2:</i>	
<i>Social and human development</i>	25-30 %
<i>Priority area 3:</i>	
<i>Trade and sustainable development</i>	35-40 %
Total	<u>100 %</u>
	<i>Including 15% overall allocation for conflict resolution / confidence-building measures</i>
	15 %

As indicated above, a target percentage of 15 % for the whole NIP will be allocated to conflict resolution/confidence-building measures (CBMs). However, rather than identifying CBMs as a priority in themselves, it is proposed that these are treated under the other priorities in the following way:

- Funds will be allocated to actions under sectoral or capacity-building priorities specifically for the inclusion of the region of Transnistria in these actions, the Tiraspol de-facto authorities being included in discussions from the early stages of programming.
- Where this is not possible — and where necessary — funds can be used for jointly designed and jointly implemented confidence-building measures, conflict resolution measures, and projects involving the right and left banks of the Nistru. In such measures, the contribution of women in peace processes, as enshrined in UN Security Council resolutions 1325 and 1820 on ‘women and peace and security’, will be duly taken into consideration.
- Where budget support is used, policy matrices should be designed in a way that does not make disbursements to the Moldovan government dependent on the actions of the Tiraspol de-facto authorities. Budget support for the Tiraspol de-facto government will be excluded, but the latter could be associated with budget support operations in the form of CBMs in the sector concerned, while fully respecting Moldova’s sovereignty and territorial integrity.

3. Priority areas

3.1 Priority area 1: Good governance, rule of law and fundamental freedoms

3.1.1 Strategic context and justification

The promotion of democracy and good governance, the rule of law and human rights are key priorities of the Moldovan government and will continue to require sustained support. These objectives lie at the heart of ENP policy. Not only are the reforms critical to combat corruption and further enhance the business and investment environment: they are also needed to strengthen social cohesion after the April 2009 events and create an environment conducive to economic development in response to the economic and financial crisis. Finally, they are key to improving the attractiveness of right-bank Moldova to facilitate the resolution of the Transnistria issue.

The ENP Progress Report 2008 underlined the need to strengthen in practice the existing democratic structures, local democracy and decentralisation, the rule of law (including in the business and investment area) and respect for human rights, and to

democratise the functioning of state institutions, in line with Moldova's international commitments. This issue was also brought to the fore by the events that followed the flawed parliamentary elections of April 2009.¹⁸

Preparatory consultations have concluded that work should be undertaken to ensure that civil society is integrated as far as possible, and that judicial reform requires continued support. The gender dimension of the issues at stake, including in the area of judicial reform, will be duly taken into consideration.

In various public statements, as well as in its political programme, the Moldovan government has emphasised its intent to make decisive progress in these areas¹⁹. Indeed, sufficient progress here is one of the main conditions for upgrading EU-Moldova relations.²⁰

3.1.2 Sub-priority 1.1: Rule of law, human rights and security

EU-Moldova Action Plan 2.1.1-12, 2.3.20, 2.5.44-54

Overview

Measures under this sub-priority will seek to ensure the sustainability of reforms in the areas of justice, freedom (including the consolidation and protection of human rights) and security (including in particular the reform of the penitentiary sector and assistance on border-related issues). These measures will aim not only to foster the active participation of civil society in Moldova's public and social life, without limiting such involvement to human rights issues, but also to strengthen the state's capacity to support CSO development and capacity building through an appropriate subsidisation system and by putting in place an inclusive interaction and consultation process with civil society.

These measures will have to be closely coordinated with complementary initiatives by other donors in the area, principally the Council of Europe, the OSCE, and the UNDP, which are generally involved in activities for reform of the justice system and support for reform of the media sector, and will build on the achievements of the EC 'Democracy Support Package' for Moldova, implemented following the events of April 2009. The measures will contribute to enhancing compliance with Council of Europe and OSCE standards and recommendations.

Impact

- More effective and accountable public decision-making, increased respect for human rights, and improvement of the legal and law enforcement environment for human and economic development, including by facilitating the legal movement of persons and goods across the EU/Moldovan borders.
- Additionally, contribution to the peaceful resolution of the Transnistria conflict by increasing the attractiveness of Moldova's institutional model.

¹⁸ In turn, the part played by the EU in reducing tensions and supporting the return to normalcy after the repeat elections of July 2009 has confirmed its role as a 'positive agent' in good governance issues.

¹⁹ This declaration of intent is supported by an EU-funded 'Democracy-Support Package' (due to be completed by mid-2011). The measures under the present priority area will build on and deepen the results achieved under the previous 'package', where needed and as appropriate.

²⁰ Council Conclusions on the Republic of Moldova, 15 June 2009.

Specific objectives

- To contribute to the implementation of a comprehensive reform strategy in the area of administration of justice.
- To promote sustainable civil society development.
- To contribute to aligning border- and migration-related management procedures and practices to EU standards.

Expected results

- Increased effectiveness of the institutions guaranteeing democracy, the rule of law and human rights, in line with international standards.
- Availability and enforcement of norms and regulations (manuals, methodologies, procedures) regarding policy-making and policy implementation in the justice sector (including their evaluation and monitoring).
- Increased impartiality and integrity of the judiciary.
- Easier access to justice for the general public, including in particular women and vulnerable groups, and economic operators.
- Increased respect for human rights (in particular women's and children's rights) on the part of prosecution agencies, law enforcement agencies and penitentiary staff.
- Enhanced effectiveness of appeals to in-country justice against human rights abuses.
- Increased media freedom, media pluralism and editorial independence of public media.
- Strengthened capacity for civil society organisations to have a voice on social, economic and political issues and enhanced consultation mechanisms with government.
- Enhanced management of border security and migration flows, also taking account of the needs of women and the issue of female and child trafficking.

Indicators of achievement²¹

- Evaluations conducted by the EU, the UN, the Council of Europe, CSOs (target: significant improvements in the targeted sectors and harmonisation with EU standards).
- Level of corruption in the law enforcement system, as measured by independent CSOs (target: substantial decrease).
- Level of corruption in the judicial system, as measured by independent CSOs (target: substantial decrease).
- Number of cases brought by Moldovan citizens against the Republic of Moldova in the ECHR (target: visible decrease).
- Number of cases of human rights abuses by prosecution and law enforcement agencies and in detention, as reported by the EU, the UN, the Council of Europe, CSOs (target: substantial decrease).

²¹ All indicators set out in this overall programming document will need to be further aligned (and specified) on the basis of the Annual Implementation Tools for charting expected progress in the implementation of the EU-Moldova Action Plan (or their successor documents). NB: Baselines for the proposed indicators as at end 2008 will have to be determined before the start of the implementation period.

- Number of cases of abuse of the rights of national, religious and other minorities, as reported by the EU, the UN, the Council of Europe, CSOs (target: visible decrease).
- Number of cases of censorship or self-censorship reported by journalists, as measured by independent surveys (target: very substantial decrease).
- Number of active CSOs monitoring and analysing government activities (target: increase).
- Detection rate of illegal border activities and crossings (target: significant increase).
- Progress towards EU standards in border security and migration management, as reported in relevant EU-Moldova cooperation fora (target: significant increase).

3.1.3 Sub-priority 1.2: Public administration reform

EU-Moldova Action Plan 2.1.1

Overview

Favouring a human resources development approach, the measures under this sub-priority will contribute to strengthening democratic institutions and pursuing the public administration and public finance management reforms initiated by the previous Moldovan governments. The quality of public finance management is critical for external aid and in particular for the budget support modality. The measures will also target the improvement of local governance and decentralisation efforts, starting with fiscal decentralisation²².

The importance of continuing the reform of public financial management, an area in which the World Bank has been active through its follow-up activities in the field of public procurement, and the already active involvement of certain donors, such as SIDA, in local governance programmes calls for the joint design and, wherever possible, joint implementation of measures under this sub-priority. The further development of EU best practices, as reflected in the Public Internal Financial Control (PIFC) approach, for the control and audit of public income, expenditure, assets and liabilities will help to underpin these joint efforts, as will the alignment of the Supreme Audit Institution's functioning with international standards.

Impact

- Properly endowed, better managed and accountable public administration (both at central and local levels), closer to citizens, capable of understanding and satisfying their needs.
- Additionally, contribution to the peaceful resolution of the Transnistria conflict by increasing the attractiveness of Moldova's institutional model.

Specific objectives

- To contribute to increase the capacity of central and local government structures to deliver high quality output (policies, services) in a spirit of transparency, inclusiveness and efficiency.

²² Local governance reform obviously needs to take into account all existing constraints, which implies not only support for central government to develop and implement appropriate policies, but also regional economic development support. These aspects are covered under the third priority area of this NIP. In designing specific programmes and projects, coherence between actions at central and regional/local level as well as appropriate sequencing has to be ensured.

- To contribute to improve the public finance management and taxation system, including by implementing properly designed fiscal decentralisation.

Expected results

- Improved capacity of central and local public institutions as regards policy-making and policy implementation through internal coordination and internal monitoring as well as consultation with all relevant stakeholders.
- Individual organisational development plans designed and implemented in selected public institutions.
- Policy framework for human resource management in the civil service, including recruitment, life-long training, career development and performance assessment improved and implemented by human resources units in civil service institutions, at central and local levels.
- Comprehensive set of public administration reform principles, also covering human resource management, financial management and control and internal audit, civil service reform and decentralisation aspects, adopted at the appropriate political level.
- Fiscal and administrative decentralisation strategy designed and progressively implemented.
- Improved public financial management system and practices, including improved budget classification, and quality and timeliness of financial information.

Indicators of achievement

- Availability and enforcement of norms and regulations (manuals, methodologies, procedures) regarding policy-making and policy implementation, including monitoring and evaluation.
- Availability and enforcement of human resource management plans in selected institutions, aligned with the above principles.
- Satisfaction among citizens regarding service delivery by administrative bodies (as evidenced by independent surveys, target: visible increase).
- Number of line ministries / budget users with internal audit capability.
- Number of areas of competence managed at decentralised level (effectively transferred by law and supported by adequate transfers of resources) (target: substantial increase).
- Budget at the disposal of decentralised administrations (target: substantial increase), also including disaggregated figures concerning taxes levied at the local level (target: no or limited increase).
- Number of civil servants receiving general training (per year, target: very substantial increase).
- Number of civil servants receiving training on revised financial management and control systems (per year, target: very substantial increase).
- Number of sectors / percentage of budget expenditure included in the MTEF (target: increase / 100% of budget expenditure)
- Availability and enforcement of norms and regulations (manuals, methodologies, procedures) regarding a new economic and functional budget classification and a new financial management information system.

3.1.4 *Sub-priority 1.3: Facilitation of new EU-Moldova Agreement*

Overview

Under this sub-priority, where the EC has an obvious comparative advantage, the measures will target the main activities needed to facilitate proper implementation of the future Agreement between Moldova and the EU, and not covered by other priority or sub-priority areas (with particular attention to those areas requiring reform of deep-rooted patterns or vested interests). These activities will be identified jointly with the Moldovan government, and in consultation with CSOs and EU donors, some of which have signalled their wish to send individual advisers to help the Moldovan government in its European integration efforts. They may also concern, as appropriate, matters of importance for a possible deep and comprehensive free trade agreement with Moldova.

Impact

Moldova will be prepared to sustain its commitments to ensure the lasting strengthening of its relations with the EU.

Specific objective

- To prepare human resources and institutions for implementation of the priorities in the future EU-Moldova Agreement with the overall aim of facilitating its entry into force (including Moldova's participation in EU programmes).

Expected results

- Increased capacity of Moldovan partners to fulfil their commitments in specific areas of the future Agreement.

Indicator of achievement

- In relevant areas, speed and quality of implementation of new Agreement, as evidenced in Commission reports and studies and compared with the intermediate objectives to be set out in the annual implementation tools and their successor monitoring plans.

3.2 *Priority area 2: Social and human development*

3.2.1 Strategic context and justification

Moldova is the poorest country in Europe. While poverty levels fell sharply after 1999, they now appear to have stabilised, and could potentially increase as a result of the economic and financial crisis. Poverty reduction is one of the key goals of the NDP.

Country-specific Millennium Development Goals (to be achieved by 2015) were defined in 2005. Since then, good progress has been made in achieving some MDGs, including education, gender inequality/disparity elimination and development of global partnerships, but targets are unlikely to be met for infant and maternal mortality, and prevention of the spread of HIV/AIDS and tuberculosis. Measures under this priority area should specifically focus on furthering progress achieved under the previous programming period 2007-2010.

Given their importance for Moldova's economic development and relative underinvestment in the past, specific attention should be also devoted to labour market issues and their link with the education/training system, while avoiding duplication of activities under the pilot EU-Moldova Mobility Partnership. Assistance for reforming and upgrading the education system, including through exchange programmes, with a

view to convergence with EU standards and practices, will be essential to consolidate democratic development, social stability and economic competitiveness. In the same vein, specific action to promote EU-Moldova cultural cooperation, including the field of capacity building, will also be eligible for assistance.

3.2.2 Sub-priority area 2.1: Social protection reform

EU-Moldova Action Plan 2.3.17-18

Overview

After more than a decade of transition, Moldova has regressed in terms of human development²³, which reflects the inadequacy of the policies intended to translate economic growth into social development. Poverty reduction — a major objective in the EU-Moldova Action Plan — has been a priority goal of successive Moldovan governments. Significant successes were achieved in the past: between 1999 and 2005, the national poverty rate fell from 73% to 28.5%, marking the largest decline in poverty in Europe and Central Asia over this period.

Since then, however, poverty reduction has stalled despite robust economic growth. Looking ahead, poverty rates may increase due to the impact of the crisis. The Moldovan government has identified the need for structural reform of the social assistance system²⁴ and EC assistance has been provided (in the form of a budget support operation) to secure its first steps, notably changes in identifying and assessing social protection needs. This assistance paves the way for other donors to join the effort. There is, however, a consensus among the government and the donor community that the results expected from this first operation need to be consolidated in order to ensure sustainability of the reform. In this context, gaps in terms of wages and pensions, the increased burden on women following the economic crisis, and in particular the decrease in remittances and return of migrants from abroad will also have to be taken into consideration.

Impact

- Moldova's social assistance system will allow the government to ensure a high level of social protection in an efficient and sustainable manner.
- Additionally, the quality of right-bank Moldova's social assistance system is an important element in the attractiveness of its socio-economic model for Transnistria-based Moldovan citizens.

Specific objective

- To implement a social assistance policy addressing the issue of extreme poverty and social welfare generally, including the social protection of women and children, in an effective and efficient manner, reflecting the pace of economic progress.

Expected results

- Social assistance system addressing poverty in an effective and efficient manner.
- Public resources allocated to social assistance efficiently managed.

Indicators of achievement

²³ UNDP, Moldova national human development report 2006.

²⁴ The social protection approach has to go hand in hand with an active economic development policy at local level, also covered in the present NIP (priority area 3).

- Percentage of population living below extreme poverty line (target: decrease).
- Percentage of population living below poverty line (target: decrease).
- Ratio of population living in poverty to budget allocated to social assistance (target: decrease).

3.2.3 Sub-priority area 2.2: Health system reform

EU-Moldova Action Plan 2.7.80

Overview

Healthcare reform is a crucial issue in Europe's poorest country, which has an ageing population (healthcare spending is expected to increase to 6-7% of GDP in 2010, compared to 4.2% in 2004) and displays worrying health indicators (life expectancy at birth was 68 years in 2004 compared to 71.2 in neighbouring Romania; combination of epidemiological patterns of rich and poor countries: for instance, compared to the UK, the prevalence rate for high blood pressure is 8 times higher while diabetes shows a similar pattern). The issue of emigration of health workers needs also to be addressed. Moreover, a successful reform would strongly appeal to Transnistria-based Moldovan citizens, insofar as the Transnistrian region's healthcare system is thoroughly run down following 18 years of public disinvestment.

Since 1997 the government of Moldova has embarked on an in-depth reform of the health care system and service provision. Concrete achievements remained modest until EC assistance was granted under the previous NIP, based on the health reforms plans set out in the NDP. This also attracted other initiatives, such as the NIF/EIB modernisation project for the Republican Hospital in Chisinau. The World Bank is also involved in reforming the health sector: close coordination of programmes will be sought at programming and implementation stages. Other donors, such as USAID, have also been active, through the delivery of equipment rather than through policy advice. There is a general consensus among the government and the donor community that health reform assistance, though it will take primary health care to a qualitatively new level, will need to be pursued further in the coming years in order to complete the reform in a comprehensive and sustainable manner. This approach is in line with assistance experience in this area in other ENP countries.

Impact

- Improved cost-benefit ratio for the social insurance system and enhanced economic potential through a healthier population.
- Increased life expectancy at birth and lengthened healthy life.
- Improved life quality and reduced exclusion and social disparities in health.
- Ensured sustainability in healthcare system funding and transparency in healthcare spending.

Specific objectives

- To increase the responsibility of individuals for their own health.
- To increase stakeholder participation.
- Strengthened inter-sector partnerships in order to improve health service delivery.
- Improved access to primary health care.
- Improved efficiency and quality of services at primary health care level.
- Financial sustainability of the primary healthcare system.

Expected results

- Appropriate framework, working conditions and incentives for improved primary care performance.
- Comprehensive, decentralised health information system in place.
- Information campaigns on individual responsibility conducted.
- Strengthened tutoring institutions, including Ministry of Health and training institutions.
- Collaborative models for policy dialogue in place (leadership reform).
- Integrative public policy (integrating health in all sectors) designed and implemented.

Indicators of achievement

- Input indicators on numbers and qualifications of healthcare workers, infrastructure, financing; health information system aligned with the provisions of the national healthcare policy and based on the monitoring experiences and results of the ongoing EC health sector reform support and as specified in the Action Plan.
- Output indicators like utilisation rates or proportion of the population not using healthcare services because of perceived inadequacy (in terms of service quality and, separately, in terms of cost) will be defined based on the same criteria.
- Outcome and impact indicators (like life expectancy at birth, birth and maternal mortality rates, HIV/AIDS and TB mortality rate) will continue to be measured as part of the overall monitoring of the sector, but are unlikely to undergo measurable changes related to programme inputs.

3.2.4 Sub-priority area 2.3: Labour market reform & education

EU-Moldova Action Plan 2.3.23, 2.7.75-76

Overview

In this relatively narrow priority, complementarities could be defined on a case-by-case basis with other interested donors, such as the EU Member States involved in the pilot Mobility Partnership with Moldova or the World Bank (involved in a regional study of human capital). The idea is to take further, and operationalise on a larger scale, the results of smaller projects in the field.

Recent studies²⁵ as well as empirical evidence suggest that Moldova's labour needs have significantly evolved over the last decade and also that the education/training system does not adequately prepare/train the local workforce. Substantial reforms of the education/training system (all levels of education being considered from secondary school and above), on the one hand, and the labour market system, on the other hand, focusing on their increased integration, appear to be essential to further the economic transition of Moldova and allow it to exploit its comparative advantages (including in the research area). In the field of higher education, the reforms will build on the experience of EU-Moldova cooperation under the Tempus and Erasmus Mundus programmes, by taking stock of their achievements and using them as inputs to the sector reform programme, that should aim, among other things, to reinforce interaction between higher education and research.

²⁵ In particular, but not only, the one conducted by the Moldovan Chamber of Commerce and Industry with the support of the Transform programme. This problematic is also dealt with quite extensively within the pilot Mobility Partnership with Moldova, under which several topical exploratory projects have been defined between Moldova and a number of EU Member States.

As appropriate and upon request of the Moldovan authorities, support shall be provided for co-financing the costs of Moldova's participation in select EU programmes open to its participation.²⁶

As related issues are also likely to be dealt with under the pilot Mobility Partnership with Moldova, careful attention will be paid to sequencing and coordination of the measure with other initiatives, at the planning stage (joint programming being clearly an option) as well as during implementation.

Impact

- Improved economic competitiveness and social stability in Moldova.
- Enhanced democratic development and strengthened mutual confidence between both sides of the Nistru river being facilitated by improved and more interactive education/training and labour market systems
- Cooperation in education/training and labour market development is one of the most promising areas for confidence building between Moldova and its separatist region of Transnistria. Both sides have specifically asked the EU to help arrange joint projects in that sphere.

Specific objectives

- To reform the labour market system, its management and services to enhance Moldova's competitiveness and ability to adjust to the economic challenges both at national and international level.
- To reform and upgrade Moldova's education/training and research systems, including through exchange programmes, with a view to adapting it to the needs of the reformed labour market.

Expected results

- Improved quality, capacity and relevance to the needs of society and the economy of the education/training and labour market systems and their convergence with EU standards and practices, including greater participation of both male and female students at all levels as well as in relevant international cooperation programmes.
- Greater capacity of research structures (human and material resources), including their capacity to participate in international programmes.
- Stronger links between education/training and research communities in the EU and Moldova.

Indicators of achievement

- Number of unemployed people (also including disaggregated figures concerning the number of unemployed people with higher education degree) (target: decrease).
- Percentage of school leavers/graduates/trainees gaining paid employment within 12 months after completion of their education/training (target: increase).
- Number and type of trainings offered to job-seekers
- Average qualification of teachers and researchers, by categories (target: increase).

²⁶ This support must not exceed 10% of the related programme budget, should be digressive, phased out over time and, as a general rule, cannot cover more than 50% of the costs of the participation. It should be also noted that resources for enhanced sector cooperation between relevant EU agencies and interested public bodies and authorities in Moldova will be provided as appropriate under the ENPI Inter-Regional Programme 2011-2013.

- Progress of the education and training systems (in particular vocational education and training systems) towards satisfying labour market needs, including through convergence with EU standards and practices, as assessed by periodic evaluations (target: substantial progress).
- Ratio of labour market services per inhabitant.
- Type and number of job creation/employment facilitating programmes and incentive schemes.
- Public expenditure on labour market policies as a percentage of public budget.
- Numbers of Moldovan nationals and education institutions participating in relevant international programmes (target: substantial increase).
- Numbers of Moldovan research entities participating in the Seventh Framework Programme (target: significant increase).

3.3 Priority area 3: Trade and sustainable development

3.3.1 Strategic context and justification

Trade is a key determinant of economic development for Moldova's small, open economy. Therefore, the elimination of obstacles to trade expansion (such as regulatory discrepancies, the inadequacy of the national quality assurance infrastructure or the lack of capacity to enforce EU phytosanitary and sanitary standards) will be crucial to ensuring the country's economic growth and progressive emergence from poverty. This and the correlated need to ensure a sustainable development pattern are addressed as priorities by this NIP.

The Moldovan government is acutely aware of the issue and has specifically asked for continued support, with a particular focus on key areas that would be covered by a future DCFTA such as technical regulations on industrial products and standards, veterinary, sanitary and phytosanitary measures, services, investment, public procurement, competition, intellectual property rights, customs and trade facilitation, environmental sustainability, energy efficiency, renewable energy and energy diversification, and regional/local development.²⁷

The long-term impact of the measure will be to contribute to economic and social reform and development and the gradual alignment of Moldova with the EU's internal market and social standards, and its trade and investment *acquis*.

3.3.2 Sub-priority 3.1: Facilitation of deep and comprehensive FTA

EU-Moldova Action Plan 2.4.1

Overview

The EU is Moldova's main trade partner. The possibility of establishing a deep and comprehensive free trade area (DCFTA) with Moldova in the negotiations on a new EU-Moldova Agreement is explicitly envisaged in the negotiating directives given to the Commission. Independently of this prospect, a number of institutional, regulatory and human capital-based obstacles have been identified that should be lifted to facilitate trade with the EU and, ultimately, if and when Moldova is deemed to be ready to implement and enforce the rules, cope with the impact of far-reaching liberalisation and to take on the related commitments, to negotiate and implement a DCFTA. This sub-

²⁷ The financial aspects of sustainable development in its broadest sense can be dealt with under priority area 1 (public administration reform, with public finance management reform), so are specifically excluded from the present priority area.

priority, where the EC has a clear comparative advantage, will focus on eliminating such obstacles.

Impact

- Sustainable economic development through increased trade and investment with the EU.
- Additionally, the benefits of the preparations for a DCFTA with the EU can contribute to the prospect of a peaceful settlement of the Transnistria issue.

Specific objectives

- As regards technical regulations and standards: to facilitate the approximation of technical regulations governing industrial products, standards and conformity assessment procedures and the institutional infrastructure for quality; to support the establishment in Moldova of performance-oriented systems and institutions for quality assurance, aiming to promote economic efficiency and innovation and to enhance trade between the EU and Moldova.
- As regards competition policy: to facilitate the adoption and maintenance of comprehensive competition laws and implementing rules that effectively address anti-competitive agreements, abuses of dominant position, anti-competitive mergers, and state aid.
- As regards public procurement: to ensure mutual market access and to create an efficient public procurement system based on the principles governing public procurement, including transparency, non-discrimination and equal treatment at all levels (national, regional and local, also including the utilities sector).
- As regards veterinary, sanitary and phytosanitary measures: to facilitate the establishment in Moldova of SPS-based control-oriented systems and reforms in terms of legal approximation, capacity building and on-the-spot implementation.
- As regards services: to facilitate the harmonisation of the existing and future Moldovan legal framework and regulatory regime with the existing and future *acquis* in services sectors where approximation has the greatest potential to facilitate mutual trade, particularly in key services sectors such as financial services, transport, postal and courier services, and telecommunications services as well as in the energy sector, taking also into account Moldova's obligations under the Energy Community Treaty.
- As regards customs and trade facilitation: to harmonise Moldova's legislation and procedures with the relevant *acquis*, and to develop the operational capacity of the customs administration to facilitate legitimate trade.
- As regards intellectual property rights: to establish effective protection and enforcement of intellectual property rights equivalent to that in the EU, including geographical indications.

Expected results

- Technical regulations:
 - Further alignment of Moldovan legislation regulating the circulation of industrial products with the relevant EU *acquis*.

- Establishment of operational and effective market surveillance systems in different sectors of the economy, in line with EU practices.
- Strengthening of the independent national standardisation body and metrology services, with a view to its full independence from public authorities.
- Development of recognised private conformity assessment bodies.
- Competition policy:
 - Adoption of principles for assessing competition law infringements, in particular concentrations, and for calculating fines.
 - Adoption of an operational and effective system of state aid control applying to goods and services.
 - Enhanced transparency of public aid granted at various levels of government.
- Public procurement:
 - Adoption of legislation and regulations on public procurement in line with the EU *acquis*, and the creation of institutional reform and enforcement mechanisms that create gradual, reciprocal and mutual opening of public procurement markets.
- SPS-related measures:
 - Further alignment of Moldovan SPS legislation and the related framework regulating animal health, animal welfare and plant health with the relevant EU *acquis*.
 - Establishment of early warning mechanisms in SPS sectors, in line with EU practices.
 - Increased operational and financial independence, institutional and administrative capacities and enforcement powers of the authorities responsible for implementing the SPS framework and its on-the-spot implementation.
 - Preparation of a comprehensive strategy for the implementation of the SPS part of a possible future DCFTA covering all reforms in terms of legal approximation, capacity building including finances and implementation.
- Services:
 - Development of a more effective regulatory framework for markets and market supervision, equivalent to that in the EU notably in terms of the administrative capacities, enforcement powers and independence of the regulators in regulated sectors.
 - Alignment of Moldovan legislation with existing and future EU legislation in relevant areas, including its full implementation and enforcement.
 - Development of authorisation and licensing procedures equivalent to those in the EU and implementation of the overall principle of non-discrimination.
 - Development of increased cooperation between Moldovan and EU supervisors, plus other relevant international organisations (e.g. FATF, MONEYVAL), especially regarding the exchange and disclosure of information in the financial services sector.
- Customs and trade facilitation:

- Adoption of modern, international and EU standards and instruments, in particular those developed by the WCO, WTO and EC in the field of customs and trade.
- Facilitation of customs clearance and control procedures based on risk analysis.
- Improvement of integrity standards in the customs administration.
- Intellectual Property Rights (IPR):
 - Creation of institutions which implement and enforce EU compatible IPR legislation, ensuring a level of protection equivalent to that in the EU.

Indicators of achievement

- Trade volumes and mutual direct investment.
- Technical regulations:
 - Harmonisation of the Moldovan legal and regulatory framework with the EU's as well as evidence-based implementation and enforcement in the spheres of standardisation, market surveillance, metrology and legal metrology, conformity assessment and accreditation;
 - International recognition of the new or reformed institutions;
 - Increased participation of the private sector in quality infrastructure activities, such as standardisation and conformity assessment.
- Competition policy:
 - Improved institutional and administrative capacity of the competition authority;
 - Increased transparency and more predictable enforcement practice based on fair and non-discriminatory procedures.
 - Evidence that competition legislation and regulations are effectively implemented and contribute to a level-playing field which is in the interest of the consumer.
- Public procurement:
 - Convergence of Moldovan procurement legislation and practice with the EU *acquis* on public procurement.
 - Significant increase in participation of EU companies in tendering procedures in Moldova, and vice versa.
- SPS-related measures:
 - Greater convergence of the Moldovan legal and regulatory SPS framework with the relevant EU *acquis*.
 - Evidence-based implementation and enforcement of the relevant legislation and regulations.
 - Significant reduction in instances of refusals of Moldovan animal product imports by the EU.
- Services:
 - In financial services, positive assessment by EU regulators or other third parties (e.g. IMF) of compliance by Moldovan regulators and supervisors with international principles;

- Increased level of conformity with EU norms in the sectors concerned, notably: compliance with capital adequacy and risk management standards by market participants in the financial sector; adequate safety standards in the transport sector; reduction in the number of services subject to licensing and authorisation procedures;
- Consolidation of the market for relevant services (market share of the ten largest providers in relevant sectors).
- Customs and trade facilitation:
 - Long-term strategy developed for the state customs service, including on transit.
 - Greater convergence of implementing instructions with the EU *acquis* and international standards.
 - Effective operational structures and mechanisms.
 - Reduced level of perceived corruption in the customs service, as per independent surveys;
 - Rate of physical controls reduced, particularly at the border.
- Intellectual Property Rights (IPR):
 - Evidence-based effective IPR protection, including GIs.
 - Increased foreign investment.
 - Increase technology transfer.

3.3.3 Sub-priority 3.2: Regional and local development

EU-Moldova Action Plan 2.3.22

Overview

The development of Moldova's regions, which are mostly disadvantaged rural areas, is considered an important priority in the NDP to combat poverty and reduce social exclusion. It is of particular relevance today in view of the risk that a financial and economic downturn may exacerbate existing regional disparities in access to employment and social and economic resources in the regions, as well fuelling migratory flows away from the regions to large cities and abroad. In the face of this risk, the Moldovan government has established a strategy for regional development and is putting in place a network of regional development agencies. A regional development fund has also been set up, and for the moment enjoys the financial support of a pool of donors (including the EC) coordinated by the World Bank.

According to several major donors, including the World Bank, the UNDP and certain EU Member State agencies, local development is one of the keys to Moldova's socio-economic future. A programme to support economic stimulation in rural areas is presently under preparation, in close association with some EU Member State agencies.

EC support in the area of regional development would seek to continue the EC's contribution to the portfolio of donor-assisted regional and local development initiatives²⁸, with a non-exclusive focus on regional development planning, human resources development, and information and communication infrastructure. As well as being one of the main determinants of economic growth, information and

²⁸ In the recent past, the EC has cooperated, via a pool funding scheme, on a World Bank project in the field.

communication technologies can also contribute significantly to the consolidation of democratic values and the good governance reforms to be pursued under this NIP. More generally, they can also complement, and help disseminate, the activities contemplated under other sub-priorities, such as in the fields of the labour market, education, or social protection.

In addition, the sub-priority will build on other previous and ongoing interventions, including the ENPI-Cross Border Cooperation Programmes. It also reflects the importance of continuing support to sustainable development in Moldova through technical and financial cooperation in key sectors including energy, the environment, and transport. These are areas where the EC has been consistently involved through previous NIPs or Regional Programmes, and which can be leveraged where relevant with international financial institutions and, if necessary, the Neighbourhood Investment Fund.

Under the Eastern Partnership, Moldova will receive assistance to address economic and social disparities between regions within the country and increase its internal cohesion through support for economic and social development. This assistance can take the form of regional development programmes modelled on the EU cohesion policy and designed to target local needs. This programme should be agreed between the Commission and Moldova by mid-2012. To assist Moldova in establishing such a programme, assistance will be provided, as appropriate, in the form of twinning or technical assistance for the design of programmes and to prepare implementation structures. Such interventions should be based on the needs of Moldova and take into account its territorial organisation.

Impact

- To contribute to Moldova's sustainable development, to reduce regional and social inequalities in the country, and to strengthen the competitiveness of the Moldovan economy.

Specific objectives

- To strengthen regional centres of growth with the aim of enhancing labour market participation and incomes and promoting access to social benefits and public services.

Expected results

- Improved capacity to plan and develop infrastructure networks in the regions.
- Substantially improved internet access for the rural population.
- Increased territorial cohesion of the country, including increased employment opportunities at local level for all groups, including women.
- Facilitation of the local deployment of reforms or activities undertaken under other sub-priorities.
- If possible, redevelopment of infrastructure (not limited to transport infrastructure) connecting both banks of the Nistru river.

Indicators of achievement

- Regional macro-economic indicators (target: positive dynamics).
- GDP per capita in the richest region / GDP per capita in the poorest region (target: decrease).

- Number of operational and sustainable support institutions (advisory services, credit unions, business centres, associations, etc.) (target: increase).
- Employment, welfare and business statistics (target: positive dynamics).
- Access to social and public services enhanced for all groups at local level, including women (as measured by specific surveys) (target: increase).
- State budget resources allocated to regional development (target: increase).
- Number of households outside Chisinau connected to wireless internet (target: increase).
- If relevant, investment in the redevelopment of infrastructure connecting both banks of the Nistru river (target: increase).

3.3.4 Sub-priority 3.3: Environment and energy efficiency / renewable energy and diversification

EU-Moldova Action Plan 2.6.62, 2.6.64-66, 2.6.69-71

Overview

Besides being identified as horizontal EC priorities, environmental, climate change and energy-related considerations are key elements of the sustainable development approach developed by the Moldovan government in the National Development Strategy 2008. Key environment issues in Moldova relate to water resources and waste management, the state of the environmental infrastructure, soil degradation, air pollution and nature protection. In order to enhance strategic planning, implementation and enforcement of environment legislation, a major challenge is to reinforce administrative capacity at national, regional and local level.

Impact

- To contribute to sustainable development of the Moldovan economy by safeguarding the country's environment and promoting sustainable use of natural resources, stimulating application of clean and renewable technologies, implementing energy efficiency and renewable energy measures, and securing diversification of its energy supplies²⁹.
- It should be noted that the measure concerns two areas where Chisinau and Tiraspol have expressed a keen interest in cooperation.

Specific objectives

- To strengthen the development and implementation of environment policy and legislation and the sustainable management of natural resources (relevant sectors including in particular air quality, water and waste management, industrial pollution and nature protection), to improve environmental standards for human health and safety, to participate actively in regional environmental cooperation, to increase environmental awareness, and to cooperate in order to mitigate and adapt to its impacts (including disaster risk reduction).
- To increase the energy efficiency of the Moldovan economy.
- To diversify sources of energy supplies to Moldova, including by developing the use of renewable energy.

Expected results

²⁹ The supply of gas to Moldova was severely disrupted in January 2009 following the dispute between Russia and Ukraine.

- Strengthened administrative capacity at national, regional and local level for implementing and enforcing environmental legislation, including regional and international multilateral agreements.
- Strengthened environmental governance (including by securing public participation in environmental matters) and strategic planning.
- Environment legislation promoting convergence with EU legislation and policy approaches as appropriate adopted and enforced.
- Better implementation of regional and international multilateral agreements.
- Energy efficiency and renewable energy law, regulations, standards and best practice aligned with EU law/best practice and commitments under the Energy Community Treaty.
- Increased contribution to the international efforts for the protection of the Black Sea environment.
- Improved procedures and structure for environmental impact assessment in line with international standards.
- Participation in international climate change mechanisms.
- Energy efficiency and renewable energy policies incorporated in governmental policies and promoted in the private sector.
- Energy supply diversification policy developed and implemented, in accordance with the National Energy Strategy.
- Environmental, climate change including disaster risk reduction and energy-related sustainable development considerations are integrated within the country's sectoral policies.
- Strengthened protection of biodiversity and landscape diversity.

Indicators of achievement

- Degree of enforcement and convergence of environmental legislation with EU legislation and policy approaches (as evidenced in EC assessments and progress reports) (target: increase).
- Number of environmental plans developed/updated in key areas (for instance, waste management, air pollution, nature protection, climate change) and incorporated in government policies (target: increase).
- Number and quality of environmental impact assessments (target: substantial increase).
- Better coverage and improved management of protected areas (target: increase)
- Provisions of the Kyoto Protocol reflected in national legislation (target: increase).
- Energy consumption per euro of GDP (target: visible decrease).
- Dependence of Moldovan economy on largest energy supplier, as percentage of total energy supplies (target: visible decrease).

4. Implementation

The general principle underlying this programme is partnership to achieve joint policy objectives. The priorities of this NIP are derived from the ENP Action Plan and the Eastern Partnership priorities, and therefore ensure a strong link between joint policy objectives and assistance cooperation. During the implementation period, the ENP Action Plan will continue to be the key reference document for the NIP. The Annual Action Programmes that will operationalise the NIP should build on reviews of progress and additional support needs in relation to implementation of the ENP Action Plan. ENP Progress Reports and the work of sub-committees established under the PCA

will support identification needs. Collaboration with Moldovan partners in the design of programmes is key to successful implementation.

Where relevant, stakeholders (including civil society organisations) will be consulted on the design of the measures to be implemented under this programme and might be involved in the monitoring process. In addition, civil society will be supported through the European Instrument for Democracy and Human Rights, a major instrument promoting fundamental freedoms and democratisation. Cooperation with civil society is also envisaged through the multilateral track of the Eastern Partnership, which includes a civil society forum and aims to promote contacts between people in the region.

In line with the Paris Declaration on aid effectiveness and the Accra Agenda for Action, preference will be given to a programme-based approach. Moldova's own systems, where adequate and sufficiently robust, will be used to a significant extent for delivering aid. Possibilities for co-funding by the Moldovan side as a sign of Moldova's commitment will be explored, for instance in the future Comprehensive Institution Building programmes.

When the right conditions are in place, budget support for sector programmes to achieve NIP objectives should continue to be considered the preferred option. In cases when a priority area is not deemed sufficiently mature for a sector policy support programme, the use of other forms of sector support and capacity building will be encouraged. Sector policy support programmes will be complemented by assistance tools such as technical assistance, twinning and TAIEX.

Sector policy support programmes seek to enhance policy dialogue and increase government ownership in the reform process. Their design should be coherent with the priorities of the ENP Action Plans (and/or equivalent documents), and their implementation should be linked to the ongoing policy dialogue. The identification of programmes should be based on a Sector Readiness Assessment. The existence of a sector strategy, a sound macro-economic framework, and a sound public finance management system are necessary preconditions for sector policy support operations.

About 74 percent of Moldova's allocations under the ENPI during 2007-2009 (of which 65% in the form of direct transfers to the State Treasury) were assigned to sector policy support operations in the social, health, and water sectors. Initial analysis of the use of sector budget support in Moldova shows that the sector budget approach is a good instrument in the Moldovan context and has proved reasonably effective in difficult circumstances (lasting periods of political uncertainty, financial crises). Reform conditionalities have largely been achieved and programmes have advanced well. An example of an important concrete result is the social sector: despite the financial crisis the introduction of a needs-based cash-benefit social assistance system with 16000 recipients (as of August 2009) has been successfully started.

Since budget support programmes have only recently started and it is difficult to draw far-reaching lessons from their early phases, their further implementation should be monitored closely during the NIP 2011-2013 period to ensure their effectiveness in achieving ENPI objectives. At this stage, one of the main lessons learned with sector policy support programmes in Moldova is that clearly defined sectors where the partner country has a strong interest need to be chosen from the outset to achieve the reform momentum crucial to the success of this form of support. Another lesson is that non-traditional actors should be included in the sector dialogue when these have a central role, such as the national social and health insurance bodies. During 2011-2013, it will

be important to see to it that the initiated reforms are sustainable before withdrawing from the sectors concerned. Follow-up sector policy support programmes, as well as alternative forms of support, should therefore be considered.

Climate change is a key challenge affecting the global community across a wide range of policy areas (*inter alia* air, water, waste, nature protection, industrial pollution, agriculture, forestry, fisheries, energy, transport, infrastructure and urban planning, tourism, human, animal and plant health, education, research). In implementing this indicative programme, considerations regarding climate change causes (mitigation) and effects (adaptation) will be integrated within relevant areas of intervention. Available climate risk screening methodologies will be used in the different stages of the implementation process to improve the climate resilience of activities in the chosen area of cooperation.

The priorities set out in the NIP will be underpinned by the results of research and development. In this respect, Moldova is encouraged to increase investment and capacity in research and development, in particular through increased involvement in the Seventh Framework Programme (FP7).³⁰

Gender as a cross-cutting issue will be mainstreamed in all assistance measures.

Confidence building and conflict resolution with regard to the Transnistria issue will be dealt with as explained in section 2 ‘Indicative budget’.

Support for infrastructure rehabilitation and development as part of a programme addressing a NIP priority area should, as a general rule, be designed in close cooperation with the EIB, the EBRD and other international finance institutions. If such support can be financed through the Neighbourhood Investment Facility (NIF), for which Moldova is eligible, this should be considered as the first option. Whenever interest rate subsidies are considered, their relevance will be assessed on a case-by-case basis, and care should be taken to avoid significant market distortions.

In 2005, the Commission identified 11 priority areas³¹ where the challenge of attaining ‘policy coherence for development’, i.e. synergy with policy objectives, is considered particularly relevant. As a policy-driven instrument, the ENPI is well-placed to accommodate this. As a result, the programmes and activities described in this NIP will - where possible - be designed in such a way as to create these synergies with the national development and reform policy objectives of Moldova.

4.1. The Eastern Partnership Comprehensive Institution Building programme

More intense bilateral cooperation under the Eastern Partnership provides the foundation for Association Agreements (AA) that may include or pave the way for ‘deep and comprehensive free trade areas’ (DCFTAs). These agreements will deepen political association and foster economic integration by, among other things, promoting further convergence towards EU legislation and standards and providing for mutual market access.

³⁰ See http://cordis.europa.eu/fp7/home_en.html for full information on FP7.

³¹ Trade; environment; security; agriculture; fisheries; social dimension of globalisation; promotion of employment and decent work; migration; research and innovation; information society; transport; energy.

The Comprehensive Institution Building programme (CIB) is a medium-term planning and implementation framework developed jointly by the Commission and Moldova. It is intended to assist Moldova with institution building for a limited number of core institutions that are central in preparing the ground for and implementing future Association Agreements and deep and comprehensive free trade agreements (agreement-driven). It will focus on a few selected core institutions (or clusters of institutions) that will have a central role in implementing the new agreements. Through a comprehensive approach, it will seek to enable the institution at the end of the programme to assume the obligations stemming from the new agreements. It will be based on clear commitments from the partner country and be co-financed in cash and or in kind.

The CIB will be agreed by the Commission and the partner country government. A Framework Document will identify the CIB core institutions. Based on the Framework Document, institutional reform plans will be designed for selected institutions during 2010 in partnership with government representatives and EU Member States interested in contributing to the CIB. Preparatory and initial CIB measures may start in 2010 with full CIB financing to implement the institutional reform plans, provided through Action Programmes drawn up on the basis of this National Indicative Programme 2011-2013. The CIBs will be implemented through, for example, the provision of advice and training to the selected public institutions as well the provision and delivery of EU-standard equipment and the specialised infrastructure needed for its operation. Support will be provided using existing instruments such as twinning, TAIEX as well as high-level advice and new innovative mechanisms. In order to ensure coherence, the CIB will build upon relevant aspects of ongoing cooperation activities.

A minimum of €41.16 million from the indicative allocation for priority areas 1, 2 and 3 is earmarked for the CIB. Additional ENPI resources may be added as appropriate to strengthen the CIB and provide accompanying measures. In case a CIB cannot be agreed, or its implementation is delayed, these funds will be fully or partly reallocated to other programmes.

5. Risks and assumptions

The key assumption underpinning this Programme is Moldova's continued commitment to the reform agenda and policy objectives in the jointly agreed EU–Moldova Action Plan and the underlying Partnership and Cooperation Agreement (PCA) and its successor agreement. While the coalition of political parties elected to power in July 2009 considers EU integration as its main political priority and cohesion principle, it cannot be excluded that the results of future parliamentary elections will lead to changes.

Despite a possible shift of priorities, it is beyond doubt that the EU reform agenda will continue to be furthered. Moldova remains highly dependent on international official financial flows. In the present context, a comprehensive stabilisation programme should now be rapidly put in place that would warrant financial support from IFIs and bilateral donors, thus fostering the prospects of active cooperation. The alternative choice — risk isolation and reject the European ambition developed in recent years — is clearly not viable as Moldova's own resources and own economic base are modest. Should new political priorities nevertheless differ substantially from those assumed in this Indicative Programme, it may have to be subject to an early review.

In terms of risks in assistance delivery, the budget support programmes will continue to rely on the quality of public financial management, macroeconomic stability, adequately prepared sector strategies and strong supervising institutions. Moldova's weak macroeconomic position is a key challenge in this regard. However, the international community, including the IMF, is stepping up support to Moldova, and the current assessment is that it will be possible to deliver budget support during the programming period. Should the conditions for budget support not be in place, the programmes will need to adapt, and other forms of assistance, including capacity building, will need to be used to a greater extent.

6. Alignment, harmonisation and consultation

The principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action remain to be fully adhered to in Moldova. Until now, the turbulent political situation and frequent staff changes have impeded consistent and systematic donor coordination by the government. The EC Delegation has encouraged the Moldovan side to play a more active role in overall donor coordination, and EC technical assistance projects have supported the Aid Coordination Unit in the Prime Minister's Office. However, stronger leadership in this area is needed from the new government. The EC will encourage linking donor coordination closely to the body in charge of EU integration, and insist that it receives appropriate political backing and adequate staffing. Ideally, a dedicated unit or sub-unit should be in charge of EC/EU projects. Due to the lack of strong government-led donor coordination, the UN currently organises monthly donor-to-donor meetings, but these have taken the form mainly of information exchange.

Despite the lack of strong overall donor coordination, certain advanced examples of donor coordination, harmonisation and alignment in Moldova can be found at sector level. Following active support from the EC Delegation and EU Member States, sector working groups including the relevant minister and active donors have been formed in the social, health and water sectors where EC budget support programmes are ongoing.

Ensuring an appropriate division of labour among donors, based on comparative advantage, remains a priority for further work in Moldova. The EC's comparative advantage and key role is in sectors relevant for European integration. Cooperation programmes with EU Member States and other donors can strengthen the effectiveness of EC-funded operations and should be further pursued. Specific attention should be paid to donor coordination on confidence building measures with the separatist region of Transnistria.

The EC Delegation brings together EU Member States to discuss issues related to EC programming and EU initiatives. During 2011-2013, the EC Delegation should seek to play an increasingly active role in ensuring regular EU coordination to further the aims of the Eastern Partnership and the EU Code of Conduct on Complementarity and Division of Labour. Mutual early information-sharing to further strengthen the European agenda should become routine.

Current experience with joint programming between the EC and EU Member States includes the water sector SBS programme, with a pilot project implemented by the Austrian development agency through delegated cooperation and projects in the labour area within the Mobility Partnership. Another example of cooperation is the co-

financing with Sweden of anti-money laundering and justice reform projects implemented through the Council of Europe.

Consultations with the Moldovan authorities on this Indicative Programme started with a programming mission in January 2009, and were pursued in April, May and June 2009, in the specific context of the parliamentary elections of 5 April 2009 and the events that followed. Contacts with the incoming government following the July 2009 repeat elections that brought about a change of parliamentary majority were pursued in August 2009 through civil society organisations. The draft MTR/NIP was finally submitted to the new Moldovan government after its appointment on 25 September 2009. Although priorities have evolved over time, it was agreed with relevant stakeholders that the future EC assistance strategy should be based on the jointly agreed policy objectives of the EU-Moldova Action Plan and support the priorities of the Eastern Partnership, thereby resulting in the selection of a limited number of priority areas where there would be high needs and EC financial assistance would have the most impact.

During the NIP programming process, extensive work was carried out to compile matrices on donor support for the Moldova ENP Action Plan. Consultations with the main donors in Moldova (including the IMF, World Bank, EBRD, Council of Europe, OSCE, UNDP, UNICEF and EU Member States) took place in Chisinau during the June 2009 programming mission. Round-table discussions were held with civil society organisations in January, April, May and June 2009. A concept note for this NIP was posted on the European Commission's website in September 2009 for public consultation. In addition, bilateral consultations with civil society and comprehensive written comments and policy documents from actors in and outside Moldova were taken into consideration when developing this NIP. The broad consultations also helped to focus the programme while ensuring continuity in EC assistance to reform as well as support for the priority areas of the Eastern Partnership.

Annex 1: Moldova at a glance

Total population (millions): **3.4**
 Surface area (sq. km): **33851**
 GDP (in billion US\$, 2008): **6.1**
 GDP per capita (PPP US\$, 2008): **1908**
 GDP growth (2009 est., annual %): **-4.0**
 Population growth (annual %): **-0.3**
 Inflation, GDP deflator (annual %, 2008): **12.5**
 Unemployment (% of total labour force): **7.3**
 Life expectancy at birth (years): **67.9**
 Sex ratio at birth (males per 100 females): **106.1**
 Median age of total population (years): **32.5**
 Human Development Index (Rank 1 – 177): **114**
 Human Development Index Value: **0.7**
 Average transition score (EBRD method, rank 1 – 4.33): **3.0**



Macroeconomic indicators

	2003	2004	2005	2006	2007	2008	2009
						Estimate	Projection
Output and expenditure							
	<i>(Percentage change in real terms)</i>						
GDP	6.6	7.4	7.5	4.8	3.0	7.2	-10.5
Private consumption	18.5	6.2	10.1	7.0	3.6	4.5	na
Public consumption	3.2	-16.2	6.3	5.3	5.2	5.0	na
Gross fixed capital formation	13.5	10.5	11.0	15.1	22.0	-0.9	na
Exports of goods and services	19.2	11.0	17.7	2.8	10.5	-7.8	na
Imports of goods and services	28.7	3.6	18.1	10.3	14.6	-6.1	na
Industrial gross output	15.6	8.2	7.0	-4.8	-1.3	0.7	na
Agricultural gross output	-13.6	20.8	0.8	-1.1	-23.1	31.9	na
Employment							
	<i>(Percentage change)</i>						
Labour force (end-year)	-8.8	-2.8	-0.7	-4.6	-3.2	-0.8	na
Employment (end-year)	-9.9	-3.0	0.2	-4.7	-0.8	0.3	na
Unemployment (end-year) ¹	7.9	8.1	<i>(In per cent of labour force)</i>		5.1	4.0	na
			7.3	7.4			
Prices and wages							
	<i>(Percentage change)</i>						
Consumer prices (annual average)	11.6	12.5	12.0	12.8	12.4	12.8	0.1
Consumer prices (end-year)	15.7	12.5	10.2	14.0	13.3	7.2	0.0
Producer prices (annual average)	7.8	5.6	5.3	12.2	26.5	10.5	na
Producer prices (end-year)	9.2	3.6	6.9	12.4	28.6	3.3	na
Gross average monthly earnings in economy (annual average)	28.8	23.8	19.5	28.7	21.6	22.6	na
Government sector							
	<i>(In per cent of GDP)</i>						
General government balance ²	1.0	0.4	1.5	-0.3	-0.3	-1.0	-8.5
General government expenditure ²	33.1	35.1	37.0	40.1	41.8	41.6	na
General government debt ³	58.9	46.0	35.9	34.2	28.3	21.4	na
Monetary sector							
	<i>(Percentage change)</i>						
Broad money (M2, end-year)	24.4	44.7	36.7	12.2	47.3	18.4	na
Domestic credit (end-year)	24.3	25.8	15.8	30.1	39.0	16.5	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	20.4	25.4	29.5	27.9	34.4	34.7	na
Interest and exchange rates							
	<i>(In per cent per annum, end-year)</i>						
Refinancing rate	14.0	14.5	12.5	14.5	16.0	14.0	na
Interbank interest rate (up to 30-days maturity)	13.0	13.3	6.3	9.5	12.3	15.5	na
Deposit rate (1 year)	12.7	15.2	13.0	11.9	15.1	18.1	na
Lending rate (1 year)	19.2	21.0	18.9	18.2	18.9	21.0	na
	<i>(Lei per US dollar)</i>						
Exchange rate (end-year)	13.2	12.5	12.8	12.9	11.3	10.4	na
Exchange rate (annual average)	13.9	12.3	12.6	13.1	12.1	10.4	na
External sector							
	<i>(In millions of US dollars)</i>						
Current account	-130.4	-57.6	-241.4	-399.0	-667.9	-1,009.3	-453.0
Trade balance	-623.4	-754.2	-1,191.5	-1,590.9	-2,243.5	-3,223.4	-1,903.0
Merchandise exports	805.2	994.1	1,104.6	1,053.5	1,374.6	1,646.7	1,202.0
Merchandise imports	1,428.5	1,748.2	2,296.1	2,644.4	3,618.2	4,870.0	3,105.0
Foreign direct investment, net	71.0	145.7	198.9	223.0	481.4	679.4	175.0
Gross reserves, excluding gold (end-year)	302.3	470.3	597.4	775.3	1,333.7	1,672.4	na
External debt stock	1,930.4	1,883.2	2,077.4	2,528.1	3,326.0	4,125.5	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	2.1	2.7	2.6	3.0	3.8	3.5	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	18.7	21.0	16.5	18.7	11.6	10.9	14.3
Memorandum items							
	<i>(Denominations as indicated)</i>						
Population (end-year, million) ⁴	3.6	3.4	3.4	3.4	3.4	3.4	na
GDP (in millions of lei)	27,618.9	32,032.0	37,651.9	44,754.0	53,430.0	62,840.0	56,600.5
GDP per capita (in US dollars)	547.5	767.3	882.6	1,003.7	1,282.1	1,766.0	na
Share of industry in GDP (in per cent)	20.5	20.5	19.1	18.0	19.1	19.5	na
Share of agriculture in GDP (in per cent)	18.3	17.5	16.4	14.8	10.0	8.9	na
Current account/GDP (in per cent)	-6.6	-2.2	-8.1	-11.7	-15.2	-16.7	-9.0
External debt - reserves (in US\$ million)	1,628.1	1,412.9	1,480.0	1,752.8	1,992.3	2,453.1	na
External debt/GDP (in per cent)	97.5	72.5	69.5	74.2	75.6	68.2	na
External debt/exports of goods and services (in per cent)	182.2	141.5	137.9	164.6	165.8	165.3	na

¹ According to ILO methodology.² General government includes the state, local government, social security and healthcare.³ Includes public and publicly guaranteed debt.⁴ Excluding Transnistria.

Status of MDG indicators, 2008

Goal 2: Achieve universal primary education

Net enrolment ratio in primary education (% both sexes): 90.6

Percentage of pupils starting Grade 1 and reaching Grade 5 (% both sexes): 97.0

Goal 3: Promote gender equality and empower women

Gender parity index in primary-level enrolment (ratio of girls to boys): 1.0

Literacy rates of 15-24 year-olds (% both sexes): 99.7

Seats held by women in national parliament (%): 21.8

Goal 4: Reduce child mortality

Mortality rate of children under 5 years old (per 1 000 live births): 19

1-year-old children immunised against measles (%): 96

Goal 5: Improve maternal health

Maternal mortality ratio (per 100 000 births): 22

Goal 6: Combat HIV/AIDS, malaria and other diseases

People living with HIV, ages 15-49 (%): 0.4

Prevalence of tuberculosis (per 100 000 people): 154

Goal 7: Ensure environmental sustainability

Land area covered by forest (%): 10.0

Carbon dioxide emissions per capita (tonnes): 1.9578

Access to improved drinking water sources (% of total population): 90

Goal 8: Develop a global partnership for development

Internet users (per 100 people): 17.4

Annex 2: Summary table of focal areas and financial breakdown

Assistance provided under this National Indicative Programme for Moldova will focus on three priority areas:

<u>Priority Area</u>	<u>Allocation</u> <u>% of total budget (€ m)</u>
<u>Priority area 1:</u>	
<i>Good governance, rule of law and fundamental freedoms</i>	35-40% (95.6-109.2)
<u>Priority area 2:</u>	
<i>Social and human development</i>	25-30% (68.3-82.0)
<u>Priority area 3:</u>	
<i>Trade and sustainable development</i>	35-40% (95.6-109.2)
Total	<u>100%</u> <u>(273.14)</u>
<i>Including 15% overall allocation for conflict resolution / confidence-building measures</i>	15% (40.97)

Under this NIP 2011-2013, Moldova will receive €273.14 million from the European Neighbourhood and Partnership Instrument (ENPI). This includes the €41.16 million earmarked for the Eastern Partnership Comprehensive Institution Building programme (CIB), which is an 'Agreement-driven' programme intended to assist Moldova with institution building for a number of core institutions that are central in preparing the ground for and implementing the future EU-Moldova Agreement. In case the CIB cannot be agreed or its implementation is delayed, the earmarked funds will be fully or partly reallocated to other programmes. In addition, €6.98 million have been reserved for Cohesion Policy.

Annex 3 Donor Coordination Matrix Moldova³²

Ongoing Funding (... - 2009)	European Union																
	EC	Austria	Czech Rep.	Estonia	Finland	France	Germany	Greece	Hungary	Ireland	Italy	Latvia	Lithuania	Poland	Slovenia	Sweden	United Kingdom
Political dialogue and reform																	
Government and Democracy																	
Rule of Law																	
Human Rights																	
Co-operation with Civil Society																	
Peace and Security																	
Conflict Prevention																	
Crises Management																	
Fight against Terrorism																	
Co-operation on Justice and Home Affairs																	
Border management																	
Migration and Readmission																	
Organised Crime																	
Police and Judicial Co-operation																	
Economic and social reform																	
Macro-Economic Reforms																	
Employment, Poverty Reduction and Social Policy																	
Industry																	
Agriculture, Forestry and Fisheries																	
Sustainable Development																	
Trade-related issues, market and regulatory reform																	
Enterprise Policy / Business Climate																	
Public Procurement																	
Intellectual Property Rights																	
Technical Standards and Regulations																	
Auditing and Accounting																	
Sectoral Support																	
Transport																	
Energy																	
Environment / Climate Change																	
Information Society and Audiovisual Co-operation																	
Research and Innovation																	
People-to people contacts																	
Education																	
Culture and Recreation																	
Health																	
Tourism and Antiquities																	
Other																	

³² This matrix is based on the data provided at the EU-US donor conference in December 2007, supplemented by the input provided by the Member States for the Mid-Term Review in the summer of 2009. Donors have supplied the Commission with descriptions of their main programmes and activities, to ensure an optimal division of labour. The matrix forms the basis for the coordination of assistance activities from 2009 onwards with the various donors active in Moldova and will be continuously updated.

Continued:

Ongoing Funding (... - 2009)	IFIs			Other donors			
	EIB	EBRD	WB	Norway	United States	IAEA	Others
Action Plan Area / Sector identified for reform							
Political dialogue and reform							
Governance and Democracy							
Rule of Law							
Human Rights							
Co-operation with Civil Society							
Peace and Security							
Conflict Prevention							
Crises Management							
Fight against Terrorism							
Co-operation on Justice and Home Affairs							
Border management							
Migration and Readmission							
Organised Crime							
Police and Judicial Co-operation							
Economic and social reform							
Macro-Economic Reforms							
Employment, Poverty Reduction and Social Policy							
Industry							
Agriculture, Forestry and Fisheries							
Sustainable Development							
Trade-related issues, market and regulatory reform							
Enterprise Policy / Business Climate							
Public Procurement							
Intellectual Property Rights							
Technical Standards and Regulations							
Auditing and Accounting							
Sectoral Support							
Transport							
Energy							
Environment / Climate Change							
Information Society and Audiovisual Co-operation							
Research and Innovation							
People-to-people contacts							
Education							
Culture and Recreation							
Health							
Tourism and Antiquities							
Other							

NB: IFIs are active in the fields of transport (EIB), health (WB, EIB), enterprise policy & business climate, public procurement (WB), industry and banking (EBRD)

Annex 4: CSP MTR Consultations and NIP 2011-2013 Drafting Process

A Mid-Term Review of the Moldova Country Strategy Paper 2007-2013 was conducted by the Commission in December 2008. For the reasons set out in the MTR checklist and further developed in the MTR analysis in the introduction, the Commission concluded that, overall, the CSP for Moldova remained relevant until the end of the period, so no major revision of the paper was necessary.

Consultations with relevant stakeholders in Moldova on a National Indicative Programme for the period 2011-2013 were conducted as follows:

1. During a first consultation mission, from 26 to 30 January 2009 in Chisinau, meetings were held with the Moldovan authorities (including the Aid Coordination Bureau in the Office of the Prime Minister). In addition, the mission met with representatives from local EU Member States and local civil society organisations. During the same visit, Commission officials and the staff of the EU Special Representative for Moldova met with the Moldovan Ministry of Reintegration and the de facto regional authorities in Tiraspol to take stock of ongoing and possible cooperation on confidence-building measures.

2. A discussion paper summarising the possible cooperation priorities and the approach to the handling of confidence-building measures in the next NIP was left with the Moldovan authorities and the CSO stakeholders on 30 January 2009. Given the tense electoral context, the Commission had announced a follow-up mission for mid-April 2009 after the planned elections. That visit had to be cancelled in connection with the events that followed the flawed April elections to the Moldovan Parliament. Commission officials met with local CSOs and received first comments on the outline paper on the occasion of a visit to Chisinau from 20 to 24 April. A concept note was developed after that visit but the political stalemate in Chisinau and the lack of a counterpart in the government (the Head of the Aid Coordination Bureau had tendered her resignation on 8 April 2009) made it necessary to postpone discussions on the concept note.

3. A second mission visited Moldova from 26 May to 5 June 2009 and met with representatives from the ministries of internal affairs, informational development, economy and trade, reintegration, finance and justice, the General Prosecutor's office and the Ombudsman's office, local EU Member States, IFIs and local civil society organisations. The draft concept note was presented and discussed during a series of meetings held on site. All but one of the ministries provided detailed comments and proposals. The Ministry of Economy and Trade submitted written comments. The Acting Head of the Aid Coordination Office expressed the government's agreement with the NIP proposal. Representatives of EU Member States provided input on their own cooperation priorities and suggestions for enhanced coordination.

4. On 7 June 2009, the Moldovan President convened new elections and a heated electoral campaign started anew. The concept note was refined in August, after the elections (29 July 2009), following bilateral discussions with local CSOs that focused mainly on the medium-term impact of the political events on the NIP priorities as well as,

more specifically, on the need to be more explicit in streamlining gender concerns in the NIP document itself, on the importance and shape of the decentralisation, judicial and media reforms, and on the substance of the targets for the programme's 'environment' activities.

As can be easily ascertained on reading the description of the programme's priorities, these concerns have been suitably accommodated in finalising the NIP 2011-2013. The concept note was sent on 21 September 2009 for publication on the website of the Delegation. It was open for comments until 19 October 2009 and served as a basis for informal consultations within the Commission. Copies of the concept note, and later of the draft NIP, were also made available to the new government, for their comments, via the Moldovan Mission to the European Communities. Comments were received from several non-state organisations during the consultation process, from, among others, the World Wildlife Fund, the Coalition for the International Criminal Court, the Gender Centre NGO, Reporters without Borders, the International Lesbian and Gay Association, the Moldovan Institute for Development and Social Initiatives 'Viitorul', and the European Partnership for Democracy.

Annex 5: COUNTRY ENVIRONMENTAL PROFILE - REPUBLIC OF MOLDOVA

1 Description of the state of the environment

The key environment issues are water and waste management, the poor state of the environmental infrastructure, soil degradation, air pollution and nature protection.

With regard to **air quality**, the main sources of pollution are road transport and energy and heat generation. Overall, air emissions almost halved between 1995 and 2002. However, pollution from road transport represents an increasing proportion of total emissions. Concerning **water quality**, infrastructure for wastewater collection and treatment needs to be upgraded and new capacity constructed. A large percentage of households do not have a proper connection to the sewage system.

Waste management is a significant challenge, including prevention, collection, treatment, recovery and final disposal. Stocks of obsolete pesticides and polychlorinated biphenyls (PCBs) require attention. As regards **nature protection**, agricultural practices and unsustainable logging have contributed to soil degradation and loss of biodiversity. With regard to **industrial pollution**, available data suggest that some factors such as water use, waste generation and greenhouse gas emissions have decreased while industrial production is increasing.

Current **trans-boundary environment issues** include the use and protection of shared waters — in particular the Danube River and the Black Sea. The Danube is a heavily utilised resource. It supports drinking water supply, irrigation, industry, fishing, tourism, power generation and navigation. It is frequently also the point of final disposal for wastewater. The result has been severe problems with water quality and quantity, and biodiversity in the region is diminishing. The Moldovan rivers are part of the Black Sea basin. The Black Sea is subject to problems similar to those faced by the Danube, the most serious of which are the discharge of wastewater, oil pollution in the coastal areas and a loss of biodiversity, including fish stocks.

As regards **global environment issues** and climate change in particular, Moldova acceded to the Kyoto Protocol in 2003, and therefore needs to implement the relevant provisions and, where appropriate, implement concrete policies and measures to reduce greenhouse gas emissions, in particular in the energy and heavy industry sectors.

2 Environment policy

Moldova has taken steps to initiate a review of its 2001 environmental policy concept. A number of sector-specific strategies, plans and programmes have been developed in the country, including on environmental security, water supply and sewerage systems in settlements, as well as a waste management concept. A draft strategy on strategic environmental assessment has also been prepared.

Moldova has continued preparing its second national communication on **climate change**, which will include a study on vulnerability and adaptation to climate change, a greenhouse gas inventory, a national mitigation strategy and an adaptation plan. Moldova has taken steps to prepare and approve further Clean Development Mechanism (CDM) projects. Four CDM projects have been registered at the UN level. The European Commission has continued to support Moldova to implement the Kyoto Protocol.

3 Environment legislation and its implementation

The 1993 framework law on environmental protection is being revised with a view to convergence with EU *acquis*.

With regard to **horizontal issues**, provisions for environmental impact assessment are laid down in the law of 1996 on ecological audit and environmental impact assessment. However, new legislation on environmental impact assessment is under preparation.

A set of legislative acts provide a legal basis for access to information, including on the environment. Further implementing rules are needed on public participation. In the field of **air quality**, the law on air protection was adopted in 1997. However, air quality standards need to be reviewed. The water code of 1993 has been the main piece of legislation in the field of **water quality**, but a new water law is under preparation. The ambient water quality standards seem generally stringent, but compliance is not enforced in practice. A series of legislative instruments cover the issue of **waste management**, and new legislation is under preparation. However, this remains a significant challenge, including prevention, collection, treatment, recovery and final disposal. Several pieces of legislation cover the issue of **nature protection**. With regard to **industrial pollution**, there are no integrated permits for industrial installations. Environment permits cover sector-specific environment issues (air, water, waste and soil) separately.

According to the 2001 Environmental Policy Concept, environmental considerations are to be integrated within sector policies. A number of strategies and programmes aim to integrate environmental considerations within e.g. sector-specific strategies and policy. However, inter-ministerial coordination and cooperation constitute a challenge.

Moldova has drafted a plan for convergence with EU environment legislation.

Overall, environment legislation is in place in many areas but needs further development. Implementing legislation is not fully developed or applied. Implementation of an integrated cross-sector approach to environment protection (such as the implementation of integrated pollution prevention and control) is a challenge. Moldova faces difficulties with the implementation and enforcement of environment legislation due to very limited administrative capacities and financial resources.

4) Administrative capacity

The Ministry of the Environment and Natural Resources (MENR) is the main body for environmental protection. The Ministry has one executive authority, the State Environmental Inspectorate, with responsibility for ensuring compliance with environmental quality standards. There are four regional environmental agencies. However, the division of responsibilities between these and the environmental departments of local authorities requires attention. In recent years, some tasks previously carried out at municipal level (such as waste management and drinking water management) have been assigned to the regional and local structures of the MENR.

Other specialised institutions support environment protection: the National Institute of Ecology, the Laboratory for Environmental Norms and Standards, the State Geological Agency, and the State Hydrometeorological Service. The Environmental Information Centre is responsible for collecting and disseminating environmental information. There is no comprehensive national environmental monitoring programme. A National Environment Fund and four local funds have been created.

The MENR has recruited new staff and prepared an institutional development plan for 2008-2011. However, in order to enhance strategic planning and the implementation and enforcement of environment legislation, the major challenge facing Moldova is to reinforce its administrative capacity at national, regional and local levels, including coordination between the relevant authorities.

5) Participation in regional and international processes

Moldova has ratified the relevant **international and regional conventions** to which it is signatory, with the exception of the Protocol on Strategic Environmental Assessment to the UNECE Convention on Environmental Impact Assessment in a Transboundary Context and the Protocol to Abate Acidification, Eutrophication and Ground-level Ozone to the UNECE Convention on Long-Range Transboundary Air Pollution.

Moldova participates in environment and climate cooperation under the **Black Sea Synergy** and the **Eastern Partnership**. As these initiatives were launched fairly recently, it is expected that regional and multilateral cooperation will significantly increase.

Moldova is a member of the **Danube-Black Sea (DABLAS) Task Force**, which provides a platform for cooperation between IFIs, donors to and beneficiaries of water protection and water-related measures concerning the Danube and the Black Sea. The main aim is to encourage a strategic approach to the use of financing, and to coordinate action between all financial instruments operating in this region. Moldova is also a member of the **International Commission for the Protection of the Danube River (ICPDR)**, which is identifying the work necessary to implement the EU Water Framework Directive — with the aim of keeping water in a good ecological and chemical condition — across the whole of the basin.

Moldova is participating in **the Eastern European, Caucasus and Central Asia component of the EU Water Initiative**, a regional component of the EU Water Initiative as announced at the 2002 World Summit on Sustainable Development. The initiative aims to promote better water governance and coordination between stakeholders. A National Policy dialogue has been established.

Moldova also participates in **the Europe and North Asia Forest Law Enforcement Governance (FLEG) process** concerning forest governance and the protection and sustainable management of forests in the region.

The **Moldova Regional Environmental Centre (REC)** aims to address environment issues in Moldova and neighbouring countries by promoting cooperation between various stakeholders at national and local levels, including NGOs, governmental bodies, local communities and the business sector. The REC also aims to promote public participation in the environmental decision-making process.

6) Key areas where environmental action is required

Moldova faces significant challenges to promote environment protection. Key areas include air quality, water and waste management, and nature protection.

As regards climate change, Moldova needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change and to prepare for implementation of a new agreement to succeed the Protocol. Particular attention needs to be devoted to mitigation and adaptation issues, and to ensuring the inclusion of relevant actions in all national plans and budgetary processes. Moldova has significant possibilities to use flexible mechanisms under this Protocol.

Institutional and administrative capacity needs to be reinforced, in particular as regards strategic planning, implementation and enforcement. Support for the implementation of multilateral environmental agreements is a key issue. The Regional Environment Centre (REC) can assist in promoting environmental awareness and protection by providing a forum for cooperation between the government, civil society/NGOs and the private sector.

The key environment areas where action is required are identified in the environment section of the EU–Moldova Action Plan, established under the European Neighbourhood Policy. It defines a set of priorities for action with regard to environmental governance, issue-specific activities and international and regional cooperation on environment issues. Progress towards implementing the Action Plan will also contribute to fulfilling the objectives of the Partnership and Cooperation Agreement.

Annex 6: Budget support operations with Moldova

Following a positive PEFA assessment in 2006, EC sector-budget support was introduced in Moldova with the ENPI Annual Action Programme (AAP) 2007. The PEFA assessment 2008 (Annex 7), which updates that produced in 2006, confirms Moldova's rapid progress towards better public finance management.

Under the AAP 2007, EUR 21 million were committed for a joint programme by the Moldovan government and the EC on 'assistance to reform in the social assistance sector'. The main measure of this social sector budget support is the introduction of a new system of cash-benefit support providing up to 35 euros per month per capita to very poor Moldovan families and individuals. While this might seem a small amount, it makes a difference especially for large families in rural areas. The new system is gradually replacing a fragmented and less efficient old system where categories of recipients receive small amounts from the state regardless of whether they are rich or poor. As of August 2009, 16000 Moldovan families are receiving the new social assistance, with numbers expected to significantly grow when the system is fully rolled out in the second half of the year.

The budget support under the AAP 2008 is dedicated to the health sector. A total amount of EUR 46.6 million is financing systemic reforms in the sector, with a focus on primary health. Concrete indicators, agreed with the Moldovan government, include annual rises of 30-40% in the budget for medical drugs reimbursed by national health insurance, an increase in the number of patients screened for cardiovascular risk factors, and the rehabilitation of primary health care centres. A comprehensive sector-wide approach will be financed through a technical assistance package to be delivered through the WHO. The budget support complements additional EC health financing using the 'classical' project approach, such as the EUR 4 million on medical equipment for 60 primary health clinics or the EUR 3 million provided in a coordinated approach with the EIB for the renovation of the Republican Hospital in Chisinau, the largest clinic in the country.

Negotiations on budget support for the water sector under the AAP 2009 have been recently concluded with the Moldovan government, and the financing agreement has been signed. A grant of EUR 45 million will be used by the competent national authorities and water-works to connect 160 000 Moldovan citizens to new or rehabilitated drinking and sanitation infrastructure before the end of 2011. This ambitious programme will be complemented by emergency measures to tackle rural drinking water pollution, especially by nitrates. To make the project feasible, the alignment of water-sector legislation with EU norms and standards will be accelerated. A pilot project will be implemented by an EU Member State agency in the Nisporeni district.

For the AAP 2010, budget support of around EUR 50 million is envisaged for economic stimulation in rural areas. Although multi-sectoral by nature, the widespread poverty in parts of rural Moldova, migration and brain drain, as well as the current concentration of economic growth in urban areas, all make this intervention a priority. As in the predecessor programmes, this budget support would be accompanied by a substantial technical assistance package and by indicators for public finance management, including public procurement. It has been suggested that this programme could also cover the

Transnistrian region of the country, under implementing conditions that remain to be defined.

Annex 7: Overview of Moldova's budget system (based on the PEFA Assessment of June 2008)

In 2008, Moldova was the first country in Europe and Central Asia to have completed two PEFA assessments. The process provided a robust platform for assessment of progress in the PFM process.

Integrated assessment of Moldova's PFM performance

1. Credibility of the budget

This is the extent to which the budget, as a plan, is a good indication of what happens in practice.

The relationship between expenditure outturn and budget was good, with aggregate outturn expenditure exceeding that budgeted in the period from 2005 to 2007. This was the result of a revenue surplus stemming from positive economic developments generated by increased investment and remittances. By and large, the increased revenue was distributed among all line ministries with variances in excess of the total deviation tending towards zero (which was achieved in 2007).

An ageing profile of expenditure arrears was prepared systematically, which was not available in the past. The level of these arrears as a share of total expenditure was low and falling (0.6% of total expenditure in 2007).

2. Comprehensiveness and transparency

This is the extent to which instruments such as the government budget and accounts reflect the totality of public finances.

In Moldova, the State Social Insurance Budget (SSIB), which receives social insurance contributions, transfers from the state budget and other revenues (interest, late payment penalties), and the Compulsory Insurance Fund for Medical Assistance (CIFMA), which receives insurance premiums for medical assistance, transfers from the state budget and other revenues (interest, late penalties), along with the seven special funds and special means (which account for less than 10 percent of the budget), are all part of the national public budget.

Transfers to the middle-level Administrative Territorial Units (ATUs) (rayons and municipalities, which also make transfers to lower level units) are also included in the state budget and are formula-driven and transparent. ATUs set their own budgets, which are readily available for scrutiny.

The budget calendar provides sufficient time for budget preparation and deliberation by Cabinet and Parliament. There is good use of web-based dissemination of information to the public at large.

3. Policy-based budgeting

This reflects the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration given to the longer-term impact of decisions.

National economic development policy is established through the National Development Strategy (NDS) and the EU–Moldova Action Plan. These policy aspirations are partly reflected in the MTEF sector strategies: the challenge remains to make the MTEF and the annual budget fully reflect the strategies espoused in the NDS.

The MTEF is leading budget reform and has been successful in ensuring predictability in the fiscal framework at aggregate level. The MTEF is Ministry of Finance-driven and line ministries are involved through a Unit for Analysis, Monitoring, and Policy Evaluation, which then needs to be fully developed to match the level of expertise in the Ministry of Finance. Only when this is achieved will national policy be fully reflected in line ministry budgets.

4. Predictability and control in budget execution

This reflects the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised.

Taxes imposed at the border are collected by the Customs Service but other taxes are administered by the State Fiscal Service. The administration of customs operations centres on the use of ASYCUDA World, which provides effective functionality for customs control, revenue collection and audit. Business practices in the State Fiscal Service are not as well developed, though improvements are planned in audit and debt management which will require the adoption of modern IT solutions as well as reorganisation and restructuring of the Service. In 2008, a write-off of uncollectable debts owing to the State Fiscal Service provided an opportunity to start anew on managing and collecting arrears. Nevertheless, the overall tax administration is an effective vehicle for collecting revenue for funding public expenditure, which should improve further once administration reform in the State Fiscal Service is implemented.

Budget execution is controlled by setting allocation limits based on forecasts of available resources and the individual needs of spending institutions with due regard to the seasonality of expenditure. The procedures to change allocation limits are difficult and the process does not take full account of commitments. In general, internal control procedures are well-understood. However the work of the Financial Control and Revision Service continues to focus on ex-post inspections of budget compliance rather than on identifying areas for improvement in the existing systems of internal control.

The Government has prepared a Strategy for the Development of Public Internal Financial Control (PIFC) with the aim of moving to a modern system to bring the control and audit of public resources into line with best international practice. There are currently ten internal audit (IA) units in place in major public institutions. These IA units have been established

independently and presently lack an overall harmonised methodological framework. The current work undertaken by these units contains elements of ex-post inspection and internal audit. Units are not conducting their activities on the basis of modern risk assessment methodology, and there is a basic need to raise managerial awareness of concepts of managerial accountability and to provide training on internal audit techniques.

Personnel or payroll facilities and staffing functions are completely decentralised. There appear to be reasonable and well-understood controls to ensure that changes in personnel status are reflected in the payroll system. Major line ministries use computerised payroll software. Smaller budgetary institutions use either computerised or manual payroll systems.

A new Public Procurement Law was enacted to bring public procurement into line with international standards and practices. The more positive aspects include the decentralisation of procurement to the spending entities, a greater degree of separation in responsibilities within public procurement, and increased transparency. Major contract awards are published quarterly in the Procurement Bulletin and on the relevant web page. Data from AMRPPHA show that over 90% of contracts, by value and by number, were procured through competitive open bidding or shopping procedures in 2007, which is a welcome improvement over previous years. Nevertheless, a major problem is that the agencies concerned are not consistently applying the law. As a result, much further work is needed in order to develop a well-functioning procurement system that ensures that money is used effectively and efficiently. The legal provisions for complaints are, in general, clear and provide for oversight by the AMRPPHA.

Donors do not use the government's procurement system (the World Bank unsuccessfully tried to do so in 2009).

5. Accounting, recording and reporting

This reflects the adequacy of information about what happens to resources in practice, both as a means of informing managers at all levels about their own progress, and that of other levels, in implementing the budget and as a means of exerting control and ensuring transparency.

The State Treasury (ST) is serviced through the Single Treasury Account (STA) with the National Bank of Moldova (NBM), through which all central Government revenues and expenditures are recorded. The introduction of the STA is a recent and welcome development. All ST transactions can be accessed in real time through on-line access to the account at the NBM. Reconciliations between bank and ST records are performed on a daily basis. Records and information are produced, maintained and disseminated to meet decision-making control, management and reporting requirements. Local territorial treasuries provide daily statements (covering both revenue and expenditure) to individual budgetary institutions, which allows them to update their accounting records. The quality of these accounting records varies enormously between budget institutions in local governments, as there is no requirement to use standard accounting software pre-approved by the central government. The annual budget execution report is not a consolidated financial statement and does not provide sufficient details and disclosures of financial assets/liabilities, information on financial risk, or details of contingent liabilities, although most of this information is available in separate reports.

6. External scrutiny and audit

The Court of Accounts (COA) is free to audit any public body or institution, including funds and special means. Since 2005 the COA has made significant progress in developing an approach that meets best international practices. Firstly, amendments to the Law of the Court of Accounts in 2005 introduced modern audit concepts such as performance auditing into legislation; second, the COA published a Strategic Development Plan (2006-2010) in April 2006, which is based on four main pillars: (a) institutional strengthening, (b) profession building, (c) staff development, and (d) achieving a greater impact with COA audit activities.

In its efforts to move to modern audit approaches, the COA has, with the support of international experts (a) developed a series of national audit standards on the basis of international standards, (b) conducted pilot performance audits of the State Fiscal Service and State Customs Service, (c) developed new methodologies for evaluating internal controls based on international practice, which have been applied at a number of entities to promote the importance of good internal controls in improving public sector financial management, and (d) conducting pilot attestation audits, which include opinions on the propriety, accuracy and reliability of the financial statements of pilot entities. Generally, the COA appears to be conducting this compliance task effectively. Arrangements are in place for the scrutiny of public finances and follow-up by the executive.

7. Donor practices

Basically, only budget support, whose predictability is constrained by conditionality and assessment timing, is conducted through the government system. There are pilot projects that use some features of the government system. However, while not implemented through the treasury system, the government is able to factor a significant element of donor support into the MTEF and budget planning process.

Assessment of the impact of PFM weaknesses

Weaknesses can be summarised as follows:

- Budget planning

Need to improve planning and budget formulation in line ministries to fully reflect the National Development Strategy and the MTEF. Specific attention needs to be devoted to improving the overall capacity to implement the investment cycle, starting with the identification of project possibilities through to the selection of projects for execution. The consequences of these weaknesses are that resource allocation linked to ministerial priorities is ineffective and the centre allocates the budget as it sees fit rather than based on sectoral expertise. Transparency under these circumstances could be doubted.

- Budget execution

While revenue collection is buoyant, there are weaknesses in tax audit and debt control, which require reorganisation of the State Fiscal Service through the introduction of modernised business processes and the adoption of a modern computer system.

The current procedures focus on allocation control and provide little real flexibility to amend budgets to accommodate changed circumstances.

- Budget accounting and controls

Need to fully develop a public sector internal control environment and internal audit institutions, which are based on international models. Without these, control will focus on top-down compliance and enforcement rather than holding budget managers fully accountable for improving their organisation's financial management systems. These reforms fundamentally change the approach to managing financial resources and require sustained institutional changes supported by capacity building over a number of years.

While payroll controls at line ministry level are sound, a large proportion of wages and salaries is handled in decentralised entities. Control mechanisms are variable there, and, while strictly outside the scope of the PEFA, merit attention due to their size and importance.

There is basic control of entry into contractual arrangements, but this does not cover all areas of expenditure and does not allow managers, ministries and the MOF to monitor the commitments position. This weakness can only be addressed through the proposed new FMIS and, without this, incomplete coverage will continue.

Failure to achieve best value for money through competitive procurement practices will continue to be a high risk area. Further capacity building will be needed over a number of years in order to develop a well-functioning and effective procurement framework.

- Budget reporting and external audit

The Moldovan government has the ability to produce meaningful consolidated financial reports, which fully address issues of asset management, risk, contingent liability, etc. The present focus is on straightforward budget execution reports. There is a need to organise the preparation of financial reports in accordance with evolving international financial reporting practice.

Need to further develop skills in financial and performance audit in accordance with modern auditing concepts. In addition, increased demand, scrutiny of the work of the COA by Parliament, and media and civil society involvement will result from work addressing topical public concerns (e.g. value for money, service delivery and thematic audits).

- External scrutiny

The budget documentation is reviewed by the Parliamentary Committee for the Economy, Budget and Finance, and the budget is debated and passed by Parliament. However, the MTEF is not handled in the same way as it is considered a government document.

With respect to accounts, the elected representatives do not yet contribute to holding the executive to account. The legislature is less involved and does not have in-depth hearings on audit reports and only deals with the Court of Accounts in its annual activity plan, its own budget, and the annual report on the management of public finances (including state budget execution, SSIB, SIFMA, and the results of other relevant controls/audits).

Prospects for reform planning and implementation

The PEFA assessment has been produced during a significant period in the overall reform of PFM in Moldova, covering:

- Policy formulation — the National Development Strategy and Action Plan.
- Budget preparation — the continued development of the MTEF.
- Budget classification — the draft of a new budget classification will be completed shortly, the plan being to introduce the new economic and functional classification starting with the formulation of the 2010 budget.
- Budget execution and accounting — the commitment to introduce a new FMIS with a planned implementation date of 2010. The proposals made appear to be soundly based and offer significant improvements in the quality and timeliness of financial information.
- Procurement — a new Procurement Law, but there are still donor concerns regarding the independence of the Procurement Agency.
- Internal audit — the development of public financial internal control, which includes improved institutional and methodological arrangements for internal audit within the government.
- External audit — ongoing support for the COA, including implementation of the Strategic Development Plan developed in 2006.
- Service delivery — the implementation of public administration reform. These reforms are significant and cover the full range of PFM and are supported by technical assistance from a range of bilateral and multilateral donors. They continue to require continued strong leadership and coordination from central government as well as significant inputs from staff in all ministries, which will require new skills (and consequently training) as well as commitment to implementing these changes. The challenge of fully implementing such an ambitious set of PFM reforms should not be underestimated.