European Commission

Brussels, 16.7.2014
C(2014) 5140 final

COMMISSION IMPLEMENTING DECISION

of 16.7.2014

on the Annual Action Programme 2014 in favour of the Republic of Moldova to be financed from the general budget of the European Union
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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation of the European Parliament and of the Council (EU) No 236/2014 of 11 March 2014 establishing common implementing rules and procedures for the implementation of the Union's instruments for external action¹, and in particular Article 2 thereof,

Having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002², and in particular Article 84(2) thereof,

Whereas:

(1) The Commission has adopted the Single Support Framework (SSF) for the period 2014-2017³, points 3.1 and 3.2 of which provide for the following priorities: 1) Public Administration Reform and 2) Agriculture and Rural Development.

(2) The objectives pursued by the Annual Action Programme to be financed under Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument⁴ are: 1) to enhance the institutional and human resource capacity of public administrations to elaborate and implement policy and to ensure the efficient and effective delivery of high-quality public services and 2) to support the Republic of Moldova to strengthen its economic, social and territorial cohesion in an environmentally sustainable fashion, developing rural areas and increasing the competitiveness of the agri-food sector through modernisation and market integration.

(3) Action entitled “Support to Public Finance Policy Reforms in Moldova” aims to contribute to sustainable growth, maintained macroeconomic and fiscal stability and ultimately contribute to poverty reduction. The specific objective is to assist the Government, the Parliament and the Supreme Audit Institution of the Republic of Moldova in the process of enhancing good governance, effective fiscal policy, transparent and accountable public finance policy and strengthened public financial management systems. The action will be implemented through budget support, grants and service contracts.

(4) Action entitled “ENPARD Moldova - Support to Agriculture and Rural Development” targets to assist the Republic of Moldova in eradicating poverty, promoting sustainable

¹ OJ L77, 15.03.2014, p. 95.
³ Decision C(2014)3995, 11.06.2014.
⁴ OJ L77, 15.03.2014, p.27.
and inclusive growth, and consolidating and improving democratic and economic governance. Through a dedicated component it is expected to foster confidence building in the Republic of Moldova, by targeting Moldovan regions that experience tensions with national authorities. The specific objective is to enhance rural development through improved policy dialogue, governance and service delivery meeting the needs of private farmers while increasing the competitiveness and the climate change/disaster resilience of the sector in rural areas. The action will be implemented through budget support, grants, service contracts and indirect management with an international organisation.

(5) This Decision complies with the conditions laid down in Article 94 of Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

(6) The Commission may entrust budget-implementation tasks under indirect management to the entity identified in this Decision, subject to the conclusion of a delegation agreement. However, this entity (the United Nations Development Programme – UNDP) is currently undergoing the ex ante assessment. In anticipation of the results of this review, the responsible authorising officer deems that, based on a preliminary evaluation and on the long-standing and problem-free cooperation with it, budget-implementation tasks can be entrusted to this entity.

(7) The maximum contribution of the European Union set by this Decision should cover any possible claims for interest due for late payment on the basis of Article 92 of Regulation (EU, Euratom) No 966/2012 and Article 111(4) of Delegated Regulation (EU) No 1268/2012.

(8) The Commission is required to define the term "non-substantial change" in the sense of Article 94(4) of Delegated Regulation (EU) No 1268/2012 to ensure that any such changes can be adopted by the authorising officer by delegation, or under his or her responsibility, by sub-delegation (hereinafter referred to as the 'responsible authorising officer').

(9) The measures provided for in this Decision are in accordance with the opinion of the European Neighbourhood Instrument Committee set up by the basic act referred to in Recital 2.

HAS DECIDED AS FOLLOWS:

**Article 1**

**Adoption of the measure**

The following Annual Action Programme, constituted by the actions identified in the second paragraph and outlined in the annexes, is approved:


The actions constituting this measure are:

- Annex 1: "Support to Public Finance Policy Reforms in Moldova";
- Annex 2: "ENPARD Moldova - Support to Agriculture and Rural Development".

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Article 2

Financial contribution

The maximum contribution of the European Union authorised by this Decision for the implementation of this programme is set at EUR 101 million and shall be financed from the following lines of the general budget of the European Union for 2014:

– budget line 21 03 02 01: EUR 37 000 000;
– budget line 21 03 02 02: EUR 57 500 000;
– budget line 21 03 02 03: EUR 6 500 000.

Article 3

Implementation modalities

Budget-implementation tasks under indirect management may be entrusted to the entity identified in the attached Annex 1, subject to the conclusion of the relevant agreement.

Section 4 of the Annexes referred to in the second paragraph of Article 1 sets out the elements required by Article 94(2) of Delegated Regulation (EU) No 1268/2012.

The financial contribution referred to in Article 2 shall also cover any possible interests due for late payment.

Article 4

Non-substantial changes

Increases or decreases of up to EUR 10 million not exceeding 20% of the contribution referred to in the first paragraph of Article 2, or cumulated changes to the allocations of specific actions not exceeding 20% of that contribution shall not be considered substantial, provided that they do not significantly affect the nature and objectives of the actions.

The responsible authorising officer may adopt these non-substantial changes in accordance with the principles of sound financial management and proportionality.

Done at Brussels, 16.7.2014

For the Commission
Štefan FÜLE
Member of the Commission
ANNEX 1

of the Commission Implementing Decision on the "Annual Action Programme 2014 in favour of the Republic of Moldova"

Action Document for "Support to Public Finance Policy Reforms in Moldova (PFPR)"

1. IDENTIFICATION

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>Support to Public Finance Policy Reforms in Moldova (PFPR) CRIS number: ENI/2014/033-684</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>Total estimated cost: EUR 37.0625 million Total amount of EU budget contribution is EUR 37 million, of which: - EUR 33 million for budget support - EUR 4 million for complementary support Estimated co-financing by potential grant beneficiaries: EUR 0.0625 million</td>
</tr>
</tbody>
</table>

**Budget support**

<table>
<thead>
<tr>
<th>Aid method / Management mode and type of financing</th>
<th>Direct management Sector Reform Contract (SRC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of aid code</td>
<td>A02 – Sector Budget Support Markers BSAR</td>
</tr>
<tr>
<td>DAC-code</td>
<td>15111 Sector Public finance management</td>
</tr>
</tbody>
</table>

**Complementary support**

<table>
<thead>
<tr>
<th>Aid method / Management mode and type of financing</th>
<th>Direct management – grants – call for proposal Direct management – procurement of services</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAC-code</td>
<td>15111 Sector Public finance management</td>
</tr>
</tbody>
</table>
2. **RATIONALE AND COUNTRY CONTEXT**

2.1. **Summary of the action and its objectives**

The proposed programme, Sector Reform Contract (SRC) “Support to Public Finance Policy Reforms in Moldova (PFPR)” supports the efforts of the Government of the Republic of Moldova to progress in some of the crucial areas foreseen by the Association Agreement, which are linked with the improvement of public governance, economic recovery and growth.

Moldova initialled the Association Agreement with the European Union on 29th November 2013. This is considered as an important step towards the further economic integration of Moldova with the EU, and is expected to further deepen political, economic and trade relations between the two parties. Moldova is also a partner country within the European Neighbourhood Policy, and EU-Moldova ENP Action Plan defines the strategic objectives of political, economic and institutional reforms. Sound management and control of public finances, as well as improved public finance management and transparency, are key political dialogue and reform areas of the ENP Action Plan.

The reforms envisaged under this programme are largely aimed at enhancing transparency of and accountability in Moldovan public finances. At the same time, improvements in public finance policy are expected to contribute to the maintenance of fiscal sustainability and the promotion of economic policies, a necessary condition in support of Moldova’s efficient growth and development in the medium and longer term.

2.2. **Country context**

2.2.1. **Main challenges towards poverty reduction/inclusive and sustainable growth**

Poverty in Moldova is a crucial socio-economic development aspect that is the running thread of action in the 2012-2020 National Development Strategy (NDS). Moldova’s economic recovery since 2000 has reduced income poverty, though poverty reduction, especially in the rural areas, has recently stalled. Moldova is characterised by volatile economic growth and high levels of social exclusion and income disparities. The country’s Gross Domestic Product (GDP) per capita increased from USD 950 in 2006 to USD 2 200 in 2012, but the country remains among the poorest in Europe. The proportion of the population living in poverty has decreased from 30.2 % to 16.6 % between 2006 and 2012. There are large and persistent region and urban/rural disparities in Moldova, particular in relation to access to education, health care, clean water or central heating. Non-urban areas in Moldova are characterized by lower incomes and poverty in non-urban rural areas was 12.9 percentage points higher than in the urban areas. Moldova is ranked 113 in the 2012 Human Development Index.

Significant improvements were made in easing conditions for the business environment in Moldova. Moldova has undergone a number of regulatory reforms in the last 5 years, and its ranking has advanced from place 86 in 2013 to place 78 in 2014 (out of 185 countries) in World Bank's Doing Business, with major improvements in starting business, access to financing and taxation. Corruption though remained a main obstacle to development. The

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6 Hereafter referred to as Moldova
7 World Bank, World Development Report, 2014
8 IMF, World Economic Outlook, October 2013
9 https://data.undp.org/dataset/Table-1-Human-Development-Index-and-its-components/wxub-qc5k
10 http://www.doingbusiness.org/data/exploreeconomies/moldova
World Economic Forum’s Global Competitiveness index placed Moldova 89th among 148 countries, stressing corruption and political instability among the top obstacles for doing business in the country. Poor state of road infrastructure (148th place out of 148), low independence of judiciary and inability of the country to retain talent (both at 145th place out of 148) are amongst factors that need improvement.

The growth was driven mainly by domestic consumption fuelled by remittances. The key challenge in the foreseeable future is to shift from the current consumption-based growth model towards one based on raising investments, increasing productivity and competitiveness, developing export industries, and promoting a knowledge-based society. The achievement of the development objectives set in NDS will require macroeconomic stability and timely implementation of structural and systemic reforms. This programme complements the public finance policy and public finance management reforms to provide macroeconomic stability.

2.2.2. Fundamental values

The Moldovan Government has adhered to the fundamental values of democracy, rule of law and human rights.

According to Amnesty International (2012), the Government has made significant progress in bringing legislation and practice in line with European and international human rights standards, but it still faces significant challenges in combating discrimination11. As per the latest report (2013) of the European Commission against Racism and Intolerance (ECRI), by adopting several action plans, the authorities have demonstrated their willingness to undertake major reforms, which would make it possible to combat racism and racial discrimination more effectively. These plans concern inter alia the honouring of Moldova’s commitments to the Council of Europe and the European Union12. The latest report of Freedom House (2014) indicates that Moldova has a freedom status of “partially free”. However, the scores for political rights and civil liberties are “3”, which is the closest score to the “free” status13. The Law “On guaranteeing equality” No 121 was adopted on the 25th of May 201214. The law provides for the establishment of a specialised body to combat racism and racial discrimination – the Council to Prevent and Combat Discrimination and Ensure Equality.

The issues of concern raised by ECRI and still to be addressed by the authorities include: (i) non ratification of Protocol No. 12 to the European Convention on Human Rights; (ii) cases of non-registration of ethnic minorities by municipalities; (iii) cases of police reluctance to register complaints of racism and racial discrimination; (iv) non-use of their power by Parliamentary Advocates to apply to a court to protect the interests of alleged victims of discrimination.

The 5th report on the implementation of the Visa Liberalisation Action Plan (VLAP), adopted in November 2013 by the European Commission, concluded that Moldova meets all the benchmarks set in the four blocks of the second phase showing positive progresses on data protection and human rights matters.

According to the most recent Human Rights Watch report of 2011 corruption remains a major drawback in guaranteeing protection of human rights and the anticorruption legislation needs to be broadened15. In the latest reports of Transparency International (2013), the corruption

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12 ECRI report on the Republic of Moldova (fourth monitoring cycle), October 2013
14 http://lex.justice.md/viewdoc.php?action=view&view=doc&id=343361&lang=1
perception index is 35, ranking Moldova 102\textsuperscript{nd} out of 177 countries in 2013, dropping from 89\textsuperscript{th} place four years earlier\textsuperscript{16}.

2.3. Eligibility for budget support

2.3.1. Public policy

Improvements in public finance policy are critical for the maintenance of fiscal sustainability and for the promotion of viable economic policies; preconditions to support Moldova’s growth and development in the medium and longer term. The National Development Strategy (NDS) Moldova 2020 is the overarching public policy document in Moldova summarising the country’s growth objectives. Moldova’s public finance policy objectives are encapsulated within the overall objectives of the NDS. Therefore, for this sector programme it is decided to consider NDS as the public policy document within the framework of which budget support is provided.

The NDS Moldova 2020 represents the overall strategic development vision for Moldova and covers the period from 2012 to 2020. It is a well-defined policy, and it has been adopted by the Executive as well as by the Parliament, thus acquiring a high political status\textsuperscript{17}. The policy objective of the strategy is to further economic development and poverty reduction. The main strategic policy direction is to support productive restructuring of the national economy enabling to maintain a higher pace of economic growth (setting a rising GDP growth target of 6\% and above by 2020).

The NDS focuses on seven development priorities: (i) Aligning the education system to labour market needs in order to enhance labour productivity and increase employment in the economy; (ii) Increasing public investment in national and local road infrastructure, in order to reduce transportation costs and increase speed of access; (iii) Reducing financing costs by increasing competition in the financial sector and developing risk management tools; (iv) Improving the business climate, promoting competition policies, streamlining the regulatory framework and applying information technologies in public services for businesses and citizens; (v) Reducing energy consumption by increasing energy efficiency and using renewable energy sources; (vi) Ensuring financial sustainability of the pension system in order to secure an appropriate rate of wage replacement; and (vii) Increasing quality and efficiency of justice and fighting corruption in order to ensure equitable access to public goods for all citizens.

The final chapter of the Strategy describes the implementation, monitoring and evaluation arrangements. It is expected that the Strategy will be implemented through an update of the existing Consolidated Action Plan (CAP), which includes in itself actions from the Government’s Activity Program and other national and strategic planning documents. The monitoring is done through regular reports including (i) Quarterly progress reports; (ii) Annual implementation report; (iii) Thematic evaluation reports; (iv) Intermediate implementation report to be produced after 2015; (v) Final report. The Government has supervision of the strategy implementation process, and will review the implementation progress. The State Chancellery is the main institution responsible for Strategy coordination, monitoring and evaluation. Ministries responsible for priorities ensure coordination and reporting in their areas of competency. The Parliament will review the Strategy implementation evaluation reports. The involvement of the civil society is ensured through the

\textsuperscript{16} http://www.transparency.org/cpi2013/results
\textsuperscript{17} Law 166 of the 11\textsuperscript{th} of July 2012. Officially published at http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=345635
National Participatory Council. Within such overall framework, Moldova’s public finance policy reforms represent a critical policy component of the overall NDS, by enhancing efficiency and effectiveness in the allocation and oversight of public resources contributing to the growth of the economy and to the development of Moldova. At the same time, improved public finance governance will contribute to a more transparent and accountable stewardship over the use of public funds in all areas and sectors of the general government.

The policy is therefore considered relevant because, inter alia, it addresses the overall objectives of poverty reduction, sustainable and inclusive growth, and efficient governance. It also establishes the general framework for linking the objectives of the EU budget support programme with the objectives identified in the public policy, and puts the programme in conformity with the overall country context. The policy is therefore credible because, inter alia, Moldova has a positive track record in policy implementation. The previous NDS (2008-2012) proved to be an effective mechanism to mobilise support from development partners. The current development strategy is based on the outcomes of the previous NDS. The policy financing is organised through a medium-term expenditure planning process. The Medium Term Budgetary Framework (MTBF) of Moldova is the key document through which multiannual strategy actions are prioritised and financed, the MTBF priorities and programmes being converted into expenditures in the approved annual budgets.

Based on the above assessment, it is concluded that the National Development Strategy Moldova 2020 is sufficiently relevant and credible for budget support programme objectives to be achieved and to be supported by the European Commission through the proposed programme.

2.3.2. Macroeconomic policy

During 2000-2008 the Moldovan economy experienced a period of sustained economic growth with an average annual real GDP growth rate of 5.9%. The GDP growth in 2011 was 6.4%. The economic growth was negative in 2012 with 0.7% contraction of GDP. The growth recovered the following year, and at the end of 2013 GDP came in at 8.9%. This was a much higher growth rate than expected. This growth was mostly contributed by the agricultural sector output of 30%, which had experienced a substantial 20% contraction in 2012.

The average rate of inflation in 2011 was 7.6%, slightly higher than the 7.4% rate registered in 2010. The increase in prices in 2011 reflected rises in the international prices for food and energy, as well as increases in the administratively-set tariffs for electricity, gas and heating in Moldova. The inflation rate decelerated in 2012 and 2013 to 4.6%. The drop in the inflation rate in 2012 reflected the drop in international prices of key components of the consumer price index.

The fiscal deficit dropped from 6.3% of GDP in 2009 to 2.5% in 2010, and was further reduced to around 2.4% in 2011. At the end of 2012 the fiscal deficit was 2.2% of GDP, and at the end of 2013 it was 1.8%. It is projected that it will increase to 2.6% of GDP in 2014. This is a result of much needed widening of capital spending which increased from 5.2% and 6.3% in 2011 and 2012 to 7.2% of GDP in 2013 and 2014 projected. At the same time, the Government continues to restrain the recurrent spending which is projected to be 32% of GDP against 34% in 2012.

The stock of public and publicly guaranteed debt as a share of GDP is modest and has followed a downward trend over the last three years. At end-2011 public and publicly guaranteed debt as share of GDP amounted to 28.3%, down from 30.2% and 32.4% at end-2010 and end-2009 respectively. In 2012 and 2013 the stock of public and publicly
guaranteed debt was 31.1% and 30.2% of GDP and it is estimated that it will remain stable at this level during the following several years. Overall Moldova’s public debt is at acceptable levels and is well below the regional averages.

Moldova has a fairly high tax revenue/GDP ratio (32%) compared to other Commonwealth of Independent States (CIS) countries. By this indicator Moldova is marginally below the maximum of lower Middle Income Countries - MICs (36.6%) and is well above the median of upper MICs (26.8%)\(^\text{18}\). The revenue collection is quite high for lower middle income countries and is higher than in many CIS and Eastern European countries. The Government continues intensification of its tax and customs administration efforts to safeguard fiscal revenue. These measures include (i) Improvements in customs clearance procedures to reduce the discretion of customs officers and the time spent by vehicles crossing the border; (ii) Intensification of inland control and inspections to monitor the final destination of imported products and reduce misclassification; (iii) Better monitoring of free economic zones’ imports, production, exports, re-exports, and unjustified build-up of inventories to identify and correct inconsistencies.

The Moldovan economy is vulnerable to adverse external shocks on key markets for its exports and/or host countries for its migrants. The current account deficit increased from 7.9% in 2010 to 11.4% of GDP in 2011 and decreased to 7.7% and 7.1% in 2012 and 2013 respectively, mostly reflecting an increase in the trade deficit. It is expected that starting from 2014 the current account deficit will remain at the range of 7-8%.

In October 2012, the IMF identified the following elements as factors posing serious downside risks to the Moldova economy: (i) Possible intensification of the euro area crisis; (ii) Slowdown of world growth affecting Moldova’s CIS trading partners; (iii) Sharp increase in world oil prices; (iv) Deterioration of Moldova banking system’s soundness\(^\text{19}\). The year 2013 has confirmed the fragility and opacity of the Moldovan banking sector. More recently, the geopolitical destabilisation in the region related to the Ukraine crisis is another major source of further vulnerability for the small, open economy of Moldova.

The IMF supported the Moldovan Government’s macroeconomic programme under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements, which run from January 2010 until April 2013, for an amount equivalent to SDR 369.6 million (about USD 569.4 million).

In November 2013, the government of Moldova requested from the IMF a new financing programme. In January 2014, an IMF mission was in Moldova to negotiate a new programme and almost agreed on a 15-month arrangement, combination of a Stand-by Arrangement and a concessional Stand-by Credit Facility. In view of Moldova’s relatively comfortable external financial situation (external indebtedness represented about 80% of GDP and foreign reserves represented five months of imports at year-end 2013), the planned arrangement was to be of precautionary nature; IMF funds would be drawn upon only in the case of an adverse shock. However, both parties agreed that the risks of an adverse shock materializing were quite high, in view of a possible impact of a slowdown in the Russian economy, trade restrictions imposed by Russia and lower remittances resulting from a tightening of immigration rules in Russia (Moldova depends heavily on remittances of its migrant workers in Russia). The fragility and opacity of the banking sector also exposes Moldova to a financial crisis and capital outflows which, should they worsen, could push the country in an unsustainable balance-of-payments’ situation. However, no agreement was concluded, as the Moldovan

\(^{18}\) IMF, 2011, Revenue Mobilisation in developing countries

\(^{19}\) IMF Country Report No. 12/288, October 2012
authorities were reluctant to implement potentially unpopular structural policy measures advocated by IMF staff in an electoral year.

Still, Moldova has shown good economic performance over the last three years. The Government also managed to maintain acceptable levels of inflation (below 5% in 2012 and 2013). Authorities have manifested fiscal prudence: capital expenditure has increased faster than current expenditure within a decreasing overall fiscal deficit (below 2% of GDP in 2013). The Moldovan authorities also managed to maintain public debt at relatively low levels (around 30% of GDP at year-end 2013). Lastly, the Moldovan authorities have managed to remain broadly on track with the IMF programme implemented between 2010 and 2013, meeting most quantitative targets and structural benchmarks.

Based on the above analysis, and despite the vulnerability of the Moldovan economy to external shocks and the need to implement further reforms in key areas of the economy, it is concluded that, overall, the authorities pursue a credible, stability oriented macroeconomic policy.

2.3.3. **Public financial management**


PEFA 2011 results show progress in overall public financial management (PFM), including (i) Improvement in twelve performance indicators; (ii) Stability in thirteen indicators, of which six with maximum score of “A”; and (iii) Deterioration in only three indicators.

The weaknesses of the existing PFM system include:

- Low quality of macroeconomic projections and revenue forecasting;
- The current Medium-term budgetary framework (MTBF) framework does not provide transparent expenditure discipline for the medium-term largely due to the inconsistency in the presentation of planned expenditures between the MTBF and the annual Budget appropriation structure;
- Cases of delays in meeting the deadlines of the budget calendar;
- Flaws in financial reporting and accounting standards;
- Weak management of operational risks and fragmented debt recording system;
- Members of Parliament have limited capacity in scrutinising the budgetary documents and have little experience in interpreting reports of the Court of Accounts (CoA);
- Weaknesses in the contents of the CoA reports, whose focus is often on cases for the law enforcement agencies and not necessarily on topics of interest for a parliamentary discussion;
- Unsatisfactory follow up of the CoA reports by the Government.

Following the PEFA 2011 study the Government drafted and approved the Strategy for Development of Public Finance Management 2013-2020 (PFM Strategy 2013-2020)\(^\text{20}\), which formalised the Government’s commitment to improve in a sustainable way accountability and performance of public financial systems. The Ministry of Finance (MoF) has approved the 2013-2014 action plan\(^\text{21}\) detailing the actions envisaged in the Strategy and establishing a

\(^{20}\) Government of Moldova Decree N 573 of the 6\(^{\text{th}}\) of August 2013

\(^{21}\) Ministry of Finance Order N 130 of the 20\(^{\text{th}}\) of September 2013
formal monitoring framework to follow up the implementation process. Therefore the current action plan and following action plans approved by the MoF along with their monitoring reports will be used by the EU Delegation to Moldova for both PFM performance and the reform programme annual monitoring. This will substitute the “Summary Table” provided in the budget support guidelines and will avoid duplication and reduce the monitoring transaction costs for both the EU Delegation and the Government.

The Government’s PFM reform programme is relevant, because the approved PFM Strategy updates the status in crucial PFM areas, defines the areas of attention and weaknesses and presents the reform measures to address these weaknesses. The programme ensures full coverage of the weaknesses identified in PEFA 2011 and other PFM related technical documents. The PFM Strategy also constitutes a synthesis of on-going reforms by consolidating in one document the other policy actions and strategies already under way in several critical components of PFM\textsuperscript{22}. The Strategy is in essence a summary of high level objectives in terms of short term realisable targets and longer term aspirations for meeting EU and international standards and practice.

Corruption risks related to the management of the capital budget, public procurement and payroll management are recognised and addressed in the Strategy. Also, measures related to improving internal control, financial inspection and fraud investigation are at the core of the PFM Strategy. These along with the establishment and staffing of internal audit structures in all central public authorities and in second level local authorities are reform measures to be implemented in short-term.

The PFM reform programme is credible, because the reform process is well sequenced, there is a high level of political commitment to reforms and clear leadership by the Ministry of Finance, the issues related to corruption and fraud are addressed, and there are clear arrangements for coordination and monitoring.

Based on the analysis above it is concluded that there is a credible and relevant programme (Strategy for Development of Public Finance Management) to improve public financial management.

2.3.4. **Budget transparency and oversight of the budget**

Moldova’s draft and enacted budgets are published in the official gazette called *Monitorul Oficial*, and are made publicly available in printed form. In addition, the draft and enacted budgets are published on the website of the Ministry of Finance\textsuperscript{23}, as well as on the official website covering the entire legislation of Moldova\textsuperscript{24}.

The Executive’s 2014 budget proposal was approved by the Government Decree No. 960 of 3\textsuperscript{rd} December 2013. The budget proposal was published as a separate book. The budget proposal was also published and made available:

- In *Monitorul Oficial* No 284-289, Article No. 1066 of 6\textsuperscript{th} December 2013.
- On the official website of the Moldovan legislation\textsuperscript{25};

\textsuperscript{22} Including (1) Public Debt Management Reform Plan, Moldova; (2) Strategy for Developing Public Internal Finance Control, Moldova; (3) State Tax Service, Moldova State Tax Service Development Plan for 2011-2015; (4) State Customs Service, Strategic Development Programme of Customs Service of Moldova 2012-2014

\textsuperscript{23} [www.mf.gov.md](http://www.mf.gov.md)

\textsuperscript{24} [www.justice.md](http://www.justice.md)

On the website of the Ministry of Finance\(^{26}\), including the text of the law, all seven annexes, as well as all explanatory, informative and analytical notes and tables prepared by the Government and accompanying the budget submission to the Parliament.

The 2014 budget was approved by the Parliament by the Law No. 339 of 23\(^{\text{rd}}\) December 2013. The approved budget was published and made available:

- In *Monitorul Oficial* No 14-16, Article No. 34 of 21\(^{\text{st}}\) January 2014.
- On the official website of the Moldovan legislation\(^{27}\), including the text of the law with annexes.

Based on the evidence above the entry point is considered to be met.

The Government’s intentions towards more transparency and oversight of the budget are relevant, because the PFM Strategy also addresses weaknesses in the area of transparency (a distinct section in the PFM Strategy), as well as PFM oversight and accountability.

The Government’s intentions are credible, because there is a clear political commitment to further improve the transparency and quality of the budgetary information made available to the public. In addition, the Government has committed to participate in the forthcoming Open Budget index survey and start the publication of the Citizen’s Budget, which are targets set in the PFM Strategy.

Based on the analysis above it is verified that the Government has published both the Executive's proposal and the enacted budgets, and that the eligibility on transparency and oversight of the budget is met.

### 2.4. Lessons learnt

Reviews of on-going and former programmes to assist the Moldovan Government funded by the EU as well as other donors have led to the following conclusions:

- There has been specific design problems in sector budget support programmes due to inconsistency together with a large number of Specific Conditions attached to disbursements. This practice has increased the risk of failure of programmes and decreased fiscal predictability.

- There is a need for clearer and more focused design:
  - to avoid delays in the implementation resulting from the plurality of state agencies involved in the attainment of the indicators; and
  - to remove differences in interpretation regarding performance and calculation of payments for the variable tranches between the Government and the EU.

- The programme must include a few, clearly defined conditions for disbursement and responsibility/accountability structures for the institutions responsible for the fulfilment of the variable tranche indicators. Visibility and publication is also a critical factor.

The specific lessons learnt during the implementation of previous sector budget support programmes is that technical assistance complementary to budget support has been essential in assisting the Government to meet its reform objectives.


2.5. **Complementary actions**

The main project supporting the Moldova’s PFM developments during the recent years have been the World Bank -funded Public Financial Management Technical Assistance Project (USD 15.7 million), which was completed in December 2013.

The EU’s technical assistance in this area has been provided mainly through twinning projects, including:

- Strengthening Public Financial Management in Moldova with the Division of Harmonisation of Public Internal Financial Control of the Ministry of Finance: completed in November 2013;
- Support to Public Procurement system of Moldova with the Agency of Public Procurement of the Ministry of Finance: completed in October 2012.

EU has also been providing sector budget support in various areas, including health, social protection, water sector, energy, justice, economic development in rural areas.

IMF provides ongoing advisory support to the State Tax Service on strengthening tax administration. There is also a cooperation project, financed by the Swedish International Development Cooperation Agency, between the Main State Tax Inspectorate under the Ministry of Finance and the Swedish Tax Agency running from 2013-2016. Policy-oriented assistance has been provided to the State Tax Service and Customs by the EU High Level Policy Advising mission funded by the EU and implemented via UNDP Moldova since 2010.

The Court of Accounts currently benefits from three ongoing projects financed by Swedish Government, World Bank administered Trust Fund and EU twinning.

2.6. **Risk management framework**

The current risk profile of Moldova can be summarised as follows:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Level</th>
<th>Assumption and Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance and political</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of commitment from the Government in</td>
<td>Moderate</td>
<td>Continuous policy dialogue with the Government within the framework of the Association Agreement</td>
</tr>
<tr>
<td>undertaking targeted reforms</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Macroeconomic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal and balance-of-payments position</td>
<td>High</td>
<td>Continuation by the Government of stability-oriented macro-economic policy.</td>
</tr>
<tr>
<td>could be negatively affected by: (i)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>slowdown in growth of main trading</td>
<td></td>
<td></td>
</tr>
<tr>
<td>partners, in particular CIS countries;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) geopolitical destabilisation in the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>region related to the Ukraine crisis;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) possible trade restrictions imposed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>by Russia and lower remittances resulting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>from a tightening of immigration rules;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and (iv) the fragility and opacity of the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>banking sector.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public Financial Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of commitment from the Government to</td>
<td>Moderate</td>
<td>Continuous dialogue with the Government on public finance policy issues and PFM reforms, use of the EU aid delivery mechanisms (budget support</td>
</tr>
<tr>
<td>implement PFM strategy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Corruption and fraud are the risk areas for EU budget support programmes.

The on-going Public Administration Reform supported important developments towards an integral and efficient public service. A legal framework is being implemented which targets corruption (consisting of Law on public service and status of public servant, Law on conflict of interest, including a Code of conduct, Law on public functions and Law on National Integrity Commission) and includes subsequent bylaws. Laws and amendments on status and professional activity of judges and prosecutors were adopted that reduce their universal immunities and allow investigation and prosecution of magistrates for corruption related acts. The Introduction of professional integrity testing and lifestyle checks in the public sector is underway. Financial Management and Control systems are being introduced in the public sector that will ensure sound financial management of public funds. International Financial Reporting Standards (IFRS) are being introduced to the private sector. Low capacity and lack of political will for implementation are risks, despite a generally good legal framework.

Legislation to reform the National Anticorruption Centre, re-subordinated from the Legislative to the Executive, have been approved as well as the National Integrity Commission has been set up and made operational. The reform of the Prosecutor's General Office has been initiated with strong emphasis on the reform of the Anti-corruption Prosecution system.

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

The overall objective of this programme is to contribute to sustainable growth, maintained macroeconomic and fiscal stability and ultimately contribute to poverty reduction in Moldova.

The specific objective is to assist the Government (notably the Ministry of Finance), Parliament (notably the Committee for Economy, Budget and Finance) and the Supreme Audit Institution (Court of Accounts) of Moldova in the process of enhancing good governance, effective fiscal policy, transparent and accountable public finance policy and strengthened public financial management systems.

3.2. Expected results

The expected results of budget support are:
- Improved quantitative and qualitative analysis of the budget, including improved macroeconomic forecasting and revenue projection for setting fiscal targets and the level of expenditures compatible with these targets over the medium term;
- Enhanced consideration by the Government of the role of the independent public institutions in fiscal policy matters;
- Enhanced capacity of the Committee for Economy, Budget and Finance of the Parliament for budget oversight and scrutiny;
- Improved quality of external audit reports by the Court of Accounts, transparency in the processes of external audits, and greater follow up of the Court's recommendations;
- Improved annual and medium-term budget planning with enhanced budget discipline and credibility;
- Improved public financial management systems to ensure effective control of expenditure (including an adequate system of accounting and reporting), as well as to ensure efficient debt management to warrant lower debt service costs and minimise fiscal risks;
- Improved budget transparency along with better public access to key fiscal information, increasing citizens’ understanding of the budget.

The expected results of complementary support are:
- Improved macroeconomic forecasting and revenue projection for setting fiscal targets and the level of expenditures compatible with these targets over the medium term;
- Improved annual and medium-term budget planning to enhance budget discipline and credibility;
- Improved budget transparency and public access to key fiscal information, to increase the citizens' access and understanding of the budget;
- Improved treasury management to ensure effective control of expenditure, including an adequate system of accounting and reporting;
- Improved debt management to guarantee low debt service cost and minimise fiscal risks;
- Improved mechanisms for prioritising capital proposals taking into account the economic and financial benefits of the projects;
- Improved capacity of the MoF to participate effectively in the formulation and coordinate the implementation of the EU budget support programmes;
- Enhanced capacity of local Civil Society Organisations (CSOs) for oversight of the budget and for dialogue on, and participation, to economic and public finance governance related matters.

### 3.3. Rationale for the amounts allocated for budget support

The total EU contribution allocated for budget support is EUR 33 million.

The rationale for this amount is based on a broad qualitative assessment that took into account, inter alia, an analysis of the following elements:

- Financing needs of the partner country;
Commitment of the partner country to allocate national budget resources (including EU budget support) in line with development strategy and objectives and to follow standard national budget procedures;

Track record and absorption capacity of past disbursements and how effectively agreed objectives were achieved with budget support operations.

Given the crosscutting nature of the public finance policy and financial management and the fact that they are part of general governance and not a distinct sector, it is considered that an increase in sector expenditure is not the key constraint to achieve the objectives of this SRC. The proposed SRC will add value through promotion and facilitation of the reforms envisaged under the programme and complementary support. The budget support component will have core importance within the overall intervention, particularly because of its financial significance and institutional reform incentives that it will provide to the Government.

The total 2014 budget approved for the Ministry of Finance amounts MDL 727 million (approximately EUR 40 million, representing 2.6% of total expenditure). This also represents 2% increase in expenditure against 2013 and 2012 budgets. The planned amount for 2014-2016 is MDL 2.2 billion which is approximately EUR 122 million. The proposed EUR 33 million budget support constitutes 27% contribution on the top of the above amount for 2015-2018.

Furthermore, this sector budget support represents approximately 0.7% of annual state budget revenues, 0.6% of annual expenditures and 7.5% of budgetary grant resources received by the government. The EU will be making a substantial investment in activities related to strengthening public finance policy and public financial management. This reflects the increased demand for PFM transparency and recognition that effective public finance policy and public financial management are pivotal to effective public administration reforms and economic growth.

It is also important to note that during the recent years EU budget support has been important for Moldova both in terms of a foreign exchange inflow, supporting the balance of payments and in terms of counter-value funds in national currency accruing to the budget:

- EU budget support makes up from 6% to 10% of current account balance every year, and;
- EU budget support makes up from 14% to 19% of capital expenditure of the government, and helps to reduce the cost of borrowing required to finance public investments.

This SRC will effectively provide additional fiscal space to the government at a macro level whilst focusing dialogue on results.

### 3.4. Main activities

Main activities to be carried out within the framework of this SRC will include:

- Continued policy dialogue with the Government with a particular focus on transparency and accountability in public financial policy and management;

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28 Data from Ministry of Finance, Division of External Financing and Debt calculations
29 Section 2.3.1 of the EU Budget Support Guidelines: Programming, Design and Management (p. 75)
− Regular monitoring of budget support eligibility criteria, of macro-economic and PFM developments, budget transparency, as well as progress in implementation of the public policy;
− Transfer of funds to the State Budget against the results achieved according to the policy matrix;
− Monitoring of achievements of the reforms objectives agreed with the Government through independent reviews, regular briefings and discussions;
− Provision of complementary support to help the Government in its efforts to implement public finance policy and PFM reforms.

3.4.1. Budget Support
Main activities to be carried out within the framework of the Budget Support component of this SRC will include:
− Engagement in policy dialogue related to public finance reforms;
− Verification of conditions and subsequent disbursement of budget support against the results achieved according to the policy matrix.

3.4.2. Complementary support
Main activities to be carried will include:
− Grants/Call for Proposal to promote Civil Society Organisations’ (CSOs) involvement in improving Moldova’s economic governance and public finance management, enabling CSOs to oversee the budget and participate in public finance policy formulation and implementation;
− Procurement of technical assistance to the Ministry of Finance and other main stakeholders to accompany the implementation of the SRC. Technical assistance will be used for data collection to verify the fulfilment of the conditions for disbursement;
− Procurement of evaluation and audit missions.

3.5. Donor coordination
The donor coordination in Moldova is led by the Government of Moldova. There is a formal donor coordination mechanism approved by the Government that sets-forth all the procedural aspects and institutional grounds for coordination of bilateral and multilateral foreign aid. In addition, the State Chancellery organises annual donor meetings and presents annual reports on the use of foreign assistance provided to Moldova.

The existing system for the donor coordination described above will be used for this Programme as well.

30 Government Decree N 12 of the 19th of January 2010
3.6. Stakeholders

The public financial institutions in Moldova include the Central Government, the Administrative Territorial Units, the Compulsory Insurance Fund for Medical Assistance and the State Social Insurance Fund. The Central Government consists of 51 Central Public Authorities, including the Parliament, the Presidency, the Court of Accounts, the State Chancellery, the Constitutional Court, the Superior Council of Magistracy, the Supreme Court of Justice, 16 ministries and 28 other central public institutions.

The key stakeholders of the programme are:

- The Parliament of the Republic of Moldova, and namely its Committee for Economy, Budget and Finance, which has the responsibility for budget oversight and scrutiny;
- The Court of Accounts is the supreme audit institution (SAI) of the Republic of Moldova;
- The Ministry of Finance is the key executive institution dealing with public finance governance and outcomes.

Availability of reliable, relevant and timely information on public spending and information on institutional arrangements for public finances will enhance transparency and understanding of public policy priorities and resourcing. The PFPR programme also aims at supporting improvements in accountability by combining transparency with participation, better enabling non state actors to oversee and to participate in decision making and public policy implementation.

3.7. Conclusion on the balance between risks (2.6.) and expected benefits/results (3.2.)

The risks of non-intervention are: 1) Possibility of limited implementation of the PFM reforms in Moldova; 2) Delays in Moldova’s compliance with the EU principles of fiscal governance and budgetary management; 3) Widened fiscal deficit and higher cost of borrowing.

It should be noted that Moldova has been running a current surplus\(^\text{31}\) since 2004. Therefore, this SRC will effectively provide grant-financing of capital expenditure in Moldova preserving at the same time the debt sustainability and the current path of fiscal consolidation by the country.

Comparing the expected benefits and results as enumerated in section 3.2. to the risks listed in section 2.6. of this Action Document, the potential benefits/expected results of the envisaged budget support programme far outweigh any risks identified.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

\(^{31}\) This measurement excludes revenue from grants (and thus budget support) and debt financing (borrowing)
4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4 and 4.4 will be carried out, is 60 months from the date of entry into force of the financing agreement or, where none is concluded, from the adoption of this Action document, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The European Parliament and the relevant Committee shall be informed of the extension of the operational implementation period within one month of that extension being granted.

4.3. Criteria and indicative schedule of disbursement of budget support

The general conditions for disbursement of all tranches are as follows: Satisfactory progress in the implementation of the National Development Strategy (NDS) Moldova 2020 and continued credibility and relevance thereof; implementation of a credible stability-oriented macroeconomic policy; satisfactory progress in the implementation of the Strategy for Development of Public Finance Management 2013-2020; satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

There is no Performance Assessment Framework attached specifically to the NDS that can serve as a public policy monitoring document with respect to the specific public finance objectives. For the proposed budget support programme most of the specific conditions and the areas for determination of disbursement of the variable tranches are a result of the continuous policy dialogue between the EU and the Government of Moldova on improvements of the public fiscal policy.

Two specific conditions suggested by the Government are related to improved accounting/reporting and public debt management and are derived directly from the Strategy for Development of Public Finance Management 2013-2020. Thus, although the identified weaknesses in the area of PFM cannot be directly linked with the proposed specific conditions, there is full coherence between the programme objectives, the overall diagnosis of the problem, and the selected conditions and activities.

The specific conditions refer to the activities related to enhanced efficiency, effectiveness, transparency and accountability in Moldova’s public finances and to be implemented by (i) the Government of the Republic of Moldova, and namely by the Ministry of Finance; (ii) the Parliament of the Republic of Moldova, and namely its Committee for Economy, Budget and Finance; and (iii) the Court of Accounts, which is the Supreme Audit Institution of the Republic of Moldova.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on fiscal year of the partner country.

<table>
<thead>
<tr>
<th>Country fiscal year</th>
<th>2014</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
</tr>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
</tr>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
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<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
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<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
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<tr>
<td>Total</td>
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</tr>
<tr>
<td>tranche</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>9</td>
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<td>-----------------</td>
<td>---</td>
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</tr>
<tr>
<td>Base tranche</td>
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<tr>
<td>Variable tranche</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>9</td>
</tr>
</tbody>
</table>

4.4. Details on complementary support

4.4.1. Grants: call for proposal “Strengthening role of civil society in economic governance and public finance management” (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The objective of the grants is to enable Civil Society Organisations (CSOs) to oversee budget and participate in public finance policy formulation and implementation by facilitating the policy dialogue between the authorities and CSOs.

The expected results of the complementary support are the following:
- Enhanced capacity of local CSOs for oversight of the budget;
- Improved capacity of local CSOs for dialogue on and participation to economic and public finance governance related matters.

(b) Eligibility conditions

Local CSOs having experience and/or interest in economic governance and public finance policy formulation, implementation, monitoring and analysis will be eligible for this call.

In order to further capacitate national actors with expertise and/or interest in the field, partnerships between international and Moldovan CSOs will be welcomed.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80%.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012 if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative quarter to launch the call

1\textsuperscript{st} quarter of 2015
4.4.2. **Procurement (direct management)**

<table>
<thead>
<tr>
<th>Subject in generic terms</th>
<th>Type (works, supplies, services)</th>
<th>Indicative number of contracts</th>
<th>Indicative quarter of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical assistance to Improve Public Finance Policy and Public Financial Management of Moldova</td>
<td>Services</td>
<td>1</td>
<td>Q1 2015</td>
</tr>
<tr>
<td>Evaluation and Audit</td>
<td>Services</td>
<td>2</td>
<td>Q1 2018</td>
</tr>
</tbody>
</table>

4.5. **Scope of geographical eligibility for procurement**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 9(2)(b) of CIR Regulation on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.6. **Indicative budget**

<table>
<thead>
<tr>
<th>Module</th>
<th>EU contribution (in EUR millions)</th>
<th>Third party contribution (in EUR million, indicative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.4.1 - Budget support</td>
<td>33</td>
<td>N.A.</td>
</tr>
<tr>
<td>3.4.2. – Complementary support</td>
<td>4</td>
<td>0.0625</td>
</tr>
<tr>
<td>4.4.1. - Call for proposals “Strengthening role of civil society in economic governance and public finance management” (direct management)</td>
<td>0.25</td>
<td>0.0625</td>
</tr>
<tr>
<td>4.4.3. - Procurement “Technical assistance to Improve Public Finance Policy and Public Financial Management of Moldova” (direct management)</td>
<td>3.5</td>
<td>N.A.</td>
</tr>
<tr>
<td>4.8. – Evaluation and audit</td>
<td>0.25</td>
<td>N.A.</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>37</strong></td>
<td><strong>0.0625</strong></td>
</tr>
</tbody>
</table>

4.7. **Performance monitoring**

Monitoring of the Programme (both the budget support and technical assistance component) will be entrusted to a Steering Committee chaired by the State Chancellery and whose members will include representatives of the Parliaments’ Committee for Economy, Budget
and Finance, Court of Accounts and the Ministry of Finance. Representatives of local CSOs with expertise and/or interest in the field will be also invited to the Committee's sittings. The Steering Committee will meet at least once a year.

Review missions will be used to assess the state of compliance with conditions and indicators attached to the disbursement of each of the budget support variable tranches envisaged under the programme.

4.8. Evaluation and audit

The European Commission foresees evaluation and audit after completion of the Programme.

4.9. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated before the start of implementation and supported with the budget indicated in section 4.6 above.

The measures shall be implemented either (a) by the Commission, and/or (b) by the partner country, contractors, grant beneficiaries and entrusted entities. Appropriate contractual obligations shall be included in, respectively, financing agreements, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

As part of the Financing Agreement, the Moldovan government undertakes to ensure that the visibility of the EU contribution to the SRC is given appropriate coverage in the various publicity media. The accompanying technical assistance service contract will endeavour to further enhance the positive image of the EU in the context of its work in Moldova and specific provision for this purpose will be included in the technical assistance service contract.

At appropriate milestones during the SRC duration and after appropriate events, press releases will be issued, by MoF in co-operation with the EU Delegation to Moldova. In all these actions, the EU visibility guidelines will be strictly adhered to.
ANNEX 2
of the Commission Implementing Decision on the "Annual Action Programme 2014 in favour of the Republic of Moldova"

Action Document for the “ENPARD Moldova – Support to Agriculture and Rural Development”

1. IDENTIFICATION

| Title/Number | ENPARD Moldova – Support to Agriculture and Rural Development  
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>CRIS number</td>
<td>ENI/2014/034-128</td>
</tr>
</tbody>
</table>

| Total cost | Total estimated cost: EUR 64.075 million  
|------------|--------------------------------------------------------------------------------------|
|            | Total amount of EU budget contribution is EUR 64 million, of which:  
|            | – EUR 53 million for budget support  
|            | – EUR 11 million for complementary support  
|            | Estimated co-financing by potential grant beneficiaries: EUR 0.075 million |

**Budget support**

| Aid method / Management mode and type of financing | Direct management  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sector Reform Contract (SRC)</td>
</tr>
</tbody>
</table>

| Type of aid code | A02 – Sector Budget Support  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Markers</td>
<td>BSAR</td>
</tr>
<tr>
<td>DAC-code</td>
<td>31120</td>
</tr>
</tbody>
</table>

**Complementary support**

| Aid method / Management mode and type of financing | Direct management – grants – calls for proposal (including Twinning)  
|----------------------------------------------------|-------------------------------------------------------------------|
|                                                    | Direct management – procurement of services  
|                                                    | Indirect management with United Nations Development Programme (UNDP) |

<table>
<thead>
<tr>
<th>DAC-code</th>
<th>31120</th>
<th>Sector</th>
<th>Agriculture development</th>
</tr>
</thead>
</table>
2. RATIONALE AND COUNTRY CONTEXT

2.1. Summary of the action and its objectives

The overall objective of this programme is to: 1) assist the Government of the Republic of Moldova\textsuperscript{32} in eradicating poverty, promoting sustainable and inclusive growth, consolidating and improving democratic and economic governance; 2) to foster confidence building in the Moldova, by targeting - through a specific component - those regions of Moldova that have tense relationships with central authorities.

The specific objectives are to: 1) improve the financial capability of the government to achieve agricultural and rural development policy objectives; 2) promote agricultural and rural development policies and reforms; 3) improve service delivery in the agricultural and rural sector; 4) improve governance in agricultural and rural development; 5) address the basic needs of the population 6) sustainable management of natural resources, including water and biodiversity and 7) foster rapprochement between Government of Moldova and regional authorities of those regions of Moldova that have tense relationships with central authorities.

2.2. Country context

2.2.1. Main challenges towards poverty reduction/inclusive and sustainable growth

Poverty in Moldova is a crucial socio-economic development aspect that is the running thread of action in the 2012-2020 National Development Strategy (NDS). Moldova’s economic recovery since 2000 has reduced income poverty, though poverty reduction, especially in the rural areas, has recently stalled. Moldova is characterised by volatile economic growth and high levels of social exclusion and income disparities. The country’s Gross Domestic Product (GDP) per capita increased from USD 950\textsuperscript{33} in 2006 to USD 2,200\textsuperscript{34} in 2012, but the country remains among the poorest in Europe, with absolute poverty of around 20\%. The proportion of the population living in poverty has decreased from 30.2 \% to 16.6 \% between 2006 and 2012. There are large and persistent region and urban/rural disparities in Moldova, particular in relation to access to education, health care, clean water or central heating. Non-urban areas in Moldova are characterized by lower incomes and poverty in non-urban rural areas was 12.9 percentage points higher than in the urban areas. Moldova is ranked 113 in the 2012 Human Development Index\textsuperscript{35}.

Significant improvements were made in easing conditions for the business environment in Moldova. Moldova has undergone a number of regulatory reforms in the last 5 years, and its ranking has advanced from place 86 in 2013 to place 78 in 2014 (out of 185 countries) in World Bank's Doing Business report, with major improvements in starting business, access to financing and taxation\textsuperscript{36}. Corruption though remained a main obstacle to development. The World Economic Forum’s Global Competitiveness index placed Moldova 89\textsuperscript{th} among 148 countries, stressing corruption and political instability among the top obstacles for doing business in the country. Poor state of road infrastructure (148\textsuperscript{th} place out of 148), low independence of judiciary and inability of the country to retain talent (both at 145\textsuperscript{th} place out of 148) are amongst factors that need improvement.

\textsuperscript{32} Hereafter referred to as Moldova
\textsuperscript{33} World Bank, World Development Report (2014)
\textsuperscript{34} IMF, World Economic Outlook, (October 2013)
\textsuperscript{35} https://data.undp.org/dataset/Table-1-Human-Development-Index-and-its-components/wxub-qc5k
\textsuperscript{36} http://www.doingbusiness.org/data/exploreeconomies/moldova
The growth was driven mainly by domestic consumption fuelled by remittances. The key challenge in the foreseeable future is to shift from the current consumption-based growth model towards one based on raising investments, increasing productivity and competitiveness, developing export industries, and promoting a knowledge-based society. The achievement of the development objectives set in NDS will require macroeconomic stability and timely implementation of structural and systemic reforms. This programme anchors the public finance policy and public finance management reforms to provide macroeconomic stability.

2.2.2. Fundamental values

The Moldovan Government has adhered to the fundamental values of democracy, rule of law and human rights.

According to Amnesty International (2012), the government has made significant progress in bringing legislation and practice in line with European and international human rights standards, but it still faces significant challenges in combating discrimination. As per the latest report (2013) of the European Commission against Racism and Intolerance (ECRI), by adopting several action plans, the authorities have demonstrated their willingness to undertake major reforms, which would make it possible to combat racism and racial discrimination more effectively. These plans concern inter alia the honouring of Moldova’s commitments to the Council of Europe and the European Union. The report of Freedom House (2014) reported that Moldova has a freedom status of “partially free”. However, the scores for political rights and civil liberties are “3”, which is the closest score to the “free” status. The Law “On guaranteeing equality” No 121 was adopted on the 25th of May 2012. The law provides for the establishment of a specialised body to combat racism and racial discrimination – the Council to Prevent and Combat Discrimination and Ensure Equality.

The issues of concern raised by ECRI and still to be addressed by the authorities include: (i) non ratification of Protocol No. 12 to the European Convention on Human Rights; (ii) cases of non-registration of ethnic minorities by municipalities; (iii) cases of police reluctance to register complaints of racism and racial discrimination; (iv) non-use of their power by Parliamentary Advocates to apply to a court to protect the interests of alleged victims of discrimination.

The 5th report on the implementation of the Visa Liberalisation Action Plan (VLAP), adopted in November 2013 by the European Commission, concluded that Moldova meets all the benchmarks set in the four blocks of the second phase showing positive progresses on data protection and human rights matters.

According to the most recent Human Rights Watch report of 2011 corruption remains a major drawback in guaranteeing protection of human rights and the anticorruption legislation needs to be broadened. In the latest reports of Transparency International (2013), the corruption perception index is 35, ranking Moldova 102nd out of 177 countries in 2013, dropping from 89th place four years earlier.
2.3. Eligibility for budget support

2.3.1. Public policy


Agriculture remains a key sector of the country’s economy, accounting for 13% of GDP, 50% of total exports and 28% of the labour force.

Following an assessment of ARD in Eastern Partnership countries during 2012, various gaps and priorities were identified, including a general lack of rural development policy and supporting measures. In this context, the Government approved the 2014-2020 Agricultural and Rural Development Strategy (ARDs) in March 2014, which addresses this gap and raises changes in associated legislation and budget allocations. According to the Ministry of Agriculture and Food Industry (MAFI) the Strategy will contribute to: a) the modernisation of the agricultural and agri-food sector; b) the improvement of living and working conditions in rural areas and c) the promotion of existing agri-food activities in harmony with the natural environment thus maintaining the biodiversity, cultural and traditional values for future generations. This strategy is also in line with targets and activities foreseen in the Association Agreement to be signed shortly between Moldova and EU.

Another key strategic document is the 2011-2015 Food Safety Strategy. Sanitary and Phyto-Sanitary (SPS) measures are especially important in regard to the development of trade relations and the reduction of technical barriers. Support to institutional development in SPS is planned as a first priority within the Comprehensive Institution Building Programme (CIB) - developing the institutional capacity of the National Food Safety Agency (ANSA).

The envisaged SRC will have a direct impact on the following cross-cutting issues: poverty through improved overall economic performance of regions, employment and well-being of its population; environment through the sustainable use of natural resources; a reduction of regional/rural disparities through the improvement of living and working conditions in rural areas. Especially in the rural development component of this SRC specific actions will be undertaken that will benefit women.

Confidence Building Measures

There are a number of regions in Moldova where regional authorities have tense relationships with central Government, such as Gagauzia. Based on the successful approach in mitigating the tensions between Transnistria and central Moldovan authorities through specific Confidence Building Measures implemented by UNDP, similar approaches will be applied for other regions where such tensions exist, like for instance Gagauzia. Gagauz economy is essentially composed of small and rural production structures concentrating their activities on raw materials, wineries, tobacco, cattle (sheep and goats in particular), dairy products as well as poorly diversified crops inherited from the former Soviet Union. The region faces important challenges in terms of business environment (complex and changing local legislation, poorly managed land cadastre) as well as infrastructures (irrigation, waste management, pesticides).
The Autonomous Territorial Unit (A.T.U.) Gagauzia relies on the "Strategy of Social and Economic Development of Gagauzia" (2009-2015) which encompasses agriculture and rural development throughout its eight priorities. In this context, harmonizing the local social and economic development strategy with the objectives - and funding - set out in the ARDS would be instrumental both in terms of local development and of rapprochement between Chisinau and Comrat.

The Monitoring and Evaluation Framework (M&E) is the responsibility of the State Chancellery, in charge of overall coordination and integration of the performance reports. M&E is primarily done using statistical data and the National Bureau for Statistics of Moldova (NBS) is the main producer of such statistics. The Law on: “Official Statistics” broadly corresponds to the European Statistics Code of Practice. Furthermore, there was a M&E system created by Governmental Decision No. 168 dated 9th March 2010, according to which specific units are entitled to carry out systematic M&E of relevant public policies. Such units have been established within each Ministry and Agency including MAFI. The State Chancellery is in charge of the development of the methodological guidelines for M&E reporting, which in practice is substituted by instructions issued on a case-by-case basis.

Since October 2011 the State Chancellery has introduced a web-based monitoring platform, which is being updated quarterly, providing information regarding the implementation of the Governmental NDS-based Action Plan.

Annual synthesis reports are prepared by the State Chancellery based on information provided by the ministries and agencies regarding the performance registered in their sectors. Based on above assessment it can be concluded that there is a credible and relevant sector development strategy in place that supports the objectives of poverty reduction, sustainable and inclusive growth, and democratic and economic governance.

2.3.2. Macroeconomic policy

During 2000-2008 the Moldovan economy experienced a period of sustained economic growth with an average annual real Gross Domestic Product (GDP) growth rate of 5.9%. The GDP growth in 2011 was 6.4%. The economic growth was negative in 2012 with 0.7% contraction of GDP. The growth recovered the following year, and at the end of 2013 GDP came in at 8.9%. This was a much higher growth rate than expected. This growth was mostly contributed by the agricultural sector output of 30%, which had experienced a substantial 20% contraction in 2012.

The average rate of inflation in 2011 was 7.6%, slightly higher than the 7.4% rate registered in 2010. The increase in prices in 2011 reflected rises in the international prices for food and energy, as well as increases in the administratively-set tariffs for electricity, gas and heating in

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43 These include: 1. Consolidation of local and regional authorities: increasing effectiveness and efficiency of the regional public authorities; improvement of financial management, public assets management, etc.; 2. Permanent development and improvement of the small and middle business support policies; 3. Development of regional policies for a sustainable and competitive regional industrial sector; 4. Elaboration of the regional policies to support and improve agriculture sector; 5. Elaboration of regional policies for mobilization of investment in Gagauzia; 6. Development of the regional infrastructure; 7. Development of rural, ecological and cultural tourism; 8. Education of new generation of the top-manager for regional economy

44 Adapted Global Assessment (AGA) of the National Statistical System of Moldova, Eurostat funded project ‘Global assessments of statistical systems of candidate and potential candidate countries as well as ENP countries’
Moldova. The inflation rate decelerated in 2012 and 2013 to 4.6%. The drop in the inflation rate in 2012 reflected the drop in international prices of key components of the consumer price index.

The fiscal deficit dropped from 6.3% of GDP in 2009 to 2.5% in 2010, and was further reduced to around 2.4% in 2011. At the end of 2012 the fiscal deficit was 2.2% of GDP, and at the end of 2013 it was 1.8%. It is projected that it will increase to 2.6% of GDP in 2014. This is a result of much needed widening of capital spending which increased from 5.2% and 6.3% in 2011 and 2012 to 7.2% of GDP in 2013 and 2014 projected. At the same time, the Government continues to restrain the recurrent spending which is projected to be 32% of GDP against 34% in 2012.

The stock of public and publicly guaranteed debt as a share of GDP is modest and has followed a downward trend over the last three years. At end-2011 public and publicly guaranteed debt as share of GDP amounted to 28.3%, down from 30.2% and 32.4% at end-2010 and end-2009, respectively. In 2012 and 2013 the stock of public and publicly guaranteed debt was 31.1% and 30.2% of GDP and it is estimated that it will remain stable at this level during the following several years. Overall Moldova’s public debt is at acceptable levels and is well below the regional averages.

Moldova has a fairly high tax revenue/GDP ratio (32%) compared to other Commonwealth of Independent States (CIS) countries. By this indicator Moldova is marginally below the maximum of lower Middle Income Countries - MICs (36.6%) and is well above the median of upper MICs (26.8%). The revenue collection is quite high for lower middle income countries and is higher than in many CIS and Eastern European countries. The Government continues intensification of its tax and customs administration efforts to safeguard fiscal revenue. These measures include (i) Improvements in customs clearance procedures to reduce the discretion of customs officers and the time spent by vehicles crossing the border; (ii) Intensification of inland control and inspections to monitor the final destination of imported products and reduce misclassification; (iii) Better monitoring of free economic zones’ imports, production, exports, re-exports, and unjustified build-up of inventories to identify and correct inconsistencies.

The Moldovan economy is vulnerable to adverse external shocks on key markets for its exports and/or host countries for its migrants. The current account deficit increased from 7.9% in 2010 to 11.4% of GDP in 2011 and decreased to 7.7% and 7.1% in 2012 and 2013 respectively, mostly reflecting an increase in the trade deficit. It is expected that starting from 2014 the current account deficit will remain at the range of 7-8%.

In October 2012, the IMF identified the following elements as factors posing serious downside risks to the Moldova economy: (i) Possible intensification of the euro area crisis; (ii) Slowdown of world growth affecting Moldova’s CIS trading partners; (iii) Sharp increase in world oil prices; (iv) Deterioration of Moldova banking system’s soundness. The year 2013 has confirmed the fragility and opacity of the Moldovan banking sector. More recently, the geopolitical destabilisation in the region related to the Ukraine crisis is another major source of further vulnerability for the small, open economy of Moldova.

The IMF supported the Moldovan Government’s macroeconomic programme under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements, which run from January 2010 until April 2013, for an amount equivalent to SDR 369.6 million (about USD569.4 million). In November 2013, the government of Moldova requested from

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45 IMF, 2011, Revenue Mobilisation in developing countries
the IMF a new financing programme. In January 2014, an IMF mission was in Moldova to negotiate a new programme and almost agreed on a 15-month arrangement, combination of a Stand-by Arrangement and a concessional Stand-by Credit Facility. In view of Moldova's relatively comfortable external financial situation (external indebtedness represented about 80% of GDP and foreign reserves represented five months of imports at year-end 2013), the planned arrangement was to be of precautionary nature: IMF funds would be drawn upon only in the case of an adverse shock. However, both parties agreed that the risks of an adverse shock materializing were quite high, in view of a possible impact of a slowdown in the Russian economy, trade restrictions imposed by Russia and lower remittances resulting from a tightening of immigration rules in Russia (Moldova depends heavily on remittances of its migrant workers in Russia). The fragility and opacity of the banking sector also exposes Moldova to a financial crisis and capital outflows which, should they worsen, could push the country in an unsustainable balance-of-payments' situation. However, no agreement was concluded, as the Moldovan authorities were reluctant to implement potentially unpopular structural policy measures advocated by IMF staff in an electoral year.

Still, Moldova has shown good economic performance over the last three years. The Government also managed to maintain acceptable levels of inflation (below 5% in 2012 and 2013). Authorities have manifested fiscal prudence: capital expenditure has increased faster than current expenditure within a decreasing overall fiscal deficit (below 2% of GDP in 2013). The Moldovan authorities also managed to maintain public debt at relatively low levels (around 30% of GDP at year-end 2013). Lastly, the Moldovan authorities have managed to remain broadly on track with the IMF programme implemented between 2010 and 2013, meeting most quantitative targets and structural benchmarks.

Based on the above analysis, and despite the vulnerability of the Moldovan economy to external shocks and the need to implement further reforms in key areas of the economy, it is concluded that, overall, the authorities pursue a credible, stability oriented macroeconomic policy.

2.3.3. Public financial management


PEFA 2011 results show progress in overall public financial management (PFM), including (i) improvement in twelve performance indicators; (ii) stability in thirteen indicators, of which six with maximum score of “A”; and (iii) deterioration in only three indicators.

The weaknesses of the existing PFM system include:

- Low quality of macroeconomic projections and revenue forecasting;
- The current MTBF framework does not provide transparent expenditure discipline for the medium-term largely due to the inconsistency in the presentation of planned expenditures between the MTBF and the annual Budget appropriation structure;
- Cases of delays in meeting the deadlines of the budget calendar;
- Flaws in financial reporting and accounting standards;
- Weak management of operational risks and fragmented debt recording system;
– Members of Parliament have limited capacity in scrutinising the budgetary documents and have little experience in interpreting reports of the Court of Accounts;
– Weaknesses in the contents of the Court of Accounts (CoA) reports, whose focus is often on cases for the law enforcement agencies and not necessarily on topics of interest for a parliamentary discussion;
– Unsatisfactory follow up of the CoA reports by the Government.

Following the PEFA 2011 study the Government drafted and approved the Strategy for Development of Public Finance Management 2013-2020 (PFM Strategy 2013-2020)\(^{47}\), which formalised the Government’s commitment to improve in a sustainable way accountability and performance of public financial systems. The Ministry of Finance has approved the 2013-2014 action plan\(^{48}\) detailing the actions envisaged in the Strategy and establishing a formal monitoring framework to follow up the implementation process. Therefore the current action plan and following action plans approved by the Ministry of Finance (MoF) along with their monitoring reports will be used by the EU Delegation to Moldova for both PFM performance and the reform programme annual monitoring. This will substitute the “Summary Table” provided in the budget support guidelines and will avoid duplication and reduce the monitoring transaction costs for both the EU Delegation and the Government.

The Government’s PFM reform programme is relevant, because the approved PFM Strategy updates the status in crucial PFM areas, defines the areas of attention and weaknesses and presents the reform measures to address these weaknesses. The programme ensures full coverage of the weaknesses identified in PEFA 2011 and other PFM related technical documents. The PFM Strategy also constitutes a synthesis of on-going reforms by consolidating in one document the other policy actions and strategies already under way in several critical components of PFM\(^{49}\). The Strategy is in essence a summary of high level objectives in terms of short term realisable targets and longer term aspirations for meeting EU and international standards and practice.

Corruption risks related to the management of the capital budget, public procurement and payroll management are recognised and addressed in the Strategy. Also, measures related to improving internal control, financial inspection and fraud investigation are at the core of the PFM Strategy. These along with the establishment and staffing of internal audit structures in all central public authorities and in second level local authorities are reform measures to be implemented in short-term.

The PFM reform programme is credible, because the reform process is well sequenced, there is a high level of political commitment to reforms and clear leadership by the Ministry of Finance, the issues related to corruption and fraud are addressed, and there are clear arrangements for coordination and monitoring.

Based on the analysis above it is concluded that there is a credible and relevant programme (Strategy for Development of Public Finance Management) to improve public financial management.

\(^{47}\) GoM Decree N 573 of 6\(^{th}\) August 2013
\(^{48}\) MoF Order N 130 of 20\(^{th}\) September 2013

\(^{49}\) Including (1) Public Debt Management Reform Plan, Moldova; (2) Strategy for Developing Public Internal Finance Control, Moldova; (3) State Tax Service, Moldova State Tax Service Development Plan for 2011-2015; (4) State Customs Service, Strategic Development Programme of Customs Service of Moldova 2012-2014
2.3.4.  **Budget transparency and oversight of the budget**

Moldova’s draft and enacted budgets are published in the official gazette called *Monitorul Oficial*, and are made publicly available in printed form. In addition, the draft and enacted budgets are published on the website of the Ministry of Finance\(^{50}\), as well as on the official website covering the entire legislation of Moldova\(^{51}\).

The Executive's 2014 budget proposal was approved by the Government Decree No. 960 of 3\(^{rd}\) December 2013. The budget proposal was published as a separate book. The budget proposal was also published and made available:

- In *Monitorul Oficial* No 284-289, Article No. 1066 of 6\(^{th}\) December 2013.
- On the official website of the Moldovan legislation\(^{52}\).
- On the website of the Ministry of Finance\(^{53}\), including the text of the law, all seven annexes, as well as all explanatory, informative and analytical notes and tables prepared by the Government and accompanying the budget submission to the Parliament.

The 2014 budget was approved by the Parliament by the Law No. 339 of 23\(^{rd}\) December 2013. The approved budget was published and made available:

- In *Monitorul Oficial* No 14-16, Article No. 34 of 21\(^{st}\) January 2014.
- On the official website of the Moldovan legislation\(^{54}\), including the text of the law with annexes.

Based on the evidence above the entry point is considered to be met.

The Government’s intentions towards more transparency and oversight of the budget are relevant, because the PFM Strategy also addresses weaknesses in the area of transparency (a distinct section in the PFM Strategy), as well as PFM oversight and accountability.

The Government’s intentions are credible, because there is a clear political commitment to further improve the transparency and quality of the budgetary information made available to the public. In addition, the Government has committed to participate in the forthcoming Open Budget index survey and start the publication of the Citizen’s Budget, which are targets, set in the PFM Strategy.

Based on the analysis above it is verified that the government has published both the Executive's proposal and the enacted budgets, and that the eligibility on transparency and oversight of the budget is met.

2.4.  **Lessons learnt**

Reviews of on-going and former programmes to assist the Moldovan Government funded by the EU as well as other donors have led to the following conclusions:

- There has been specific design problems in sector budget support programmes due to inconsistency together with a large number of Specific Conditions attached to

\(^{50}\) [www.mf.gov.md](http://www.mf.gov.md)

\(^{51}\) [www.justice.md](http://www.justice.md)


disbursements. This practice has increased the risk of failure of programmes and decreased fiscal predictability.

- There is a need for clearer and more focused design:
  - to avoid delays in the implementation resulting from the plurality of state agencies involved in the attainment of the indicators; and
  - to remove differences in interpretation regarding performance and calculation of payments for the variable tranches between the Government and the EU.

- The programme must include a few, clearly defined conditions for disbursement and responsibility/accountability structures for the institutions responsible for the fulfilment of the variable tranche indicators. Visibility and publication is also a critical factor.

The specific lessons learnt during the implementation of previous sector budget support programmes is that technical assistance complementary to budget support has been essential in assisting the Government to meet its reform objectives.

2.5. Complementary actions

There is a large number of donors, both multilateral as well as bi-lateral, assisting Moldova in the field of agriculture and rural development. The most significant of these are the European Union (e.g. ESRA sectoral budget support programme, support to the use of biomass for energy - and EIB – Wine Sector Restructuring Programme), United States (USAID - Agricultural Competitiveness and Enterprise Development Project - and MCC – High Value Agriculture and Irrigation Infrastructure Reconstruction Programme) and World Bank (Rural Investment and Services Project and Moldova Agricultural Competitiveness Project). Most of these donor programmes and projects have a strong capacity-building and institutional-strengthening component that will undoubtedly contribute to the sector reform focus envisaged under this programme.

2.6. Risk management framework

The current risk profile of Moldova can be summarised as follows:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Level</th>
<th>Assumption and Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance and political</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of commitment from the Government and from local authorities in undertaking targeted reforms</td>
<td>Moderate</td>
<td>Continuous policy dialogue with the Government and with local authorities within the framework of the Association Agreement</td>
</tr>
<tr>
<td>Macroeconomic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal and balance-of-payments position could be negatively affected by: (i) slowdown in growth of main trading partners, in particular CIS countries; (ii) geopolitical destabilisation in the region related to the Ukraine crisis; (iii) possible trade disruption</td>
<td>High</td>
<td>Continuation by the Government of stability-oriented macroeconomic policy.</td>
</tr>
</tbody>
</table>
restrictions imposed by Russia and lower remittances resulting from a tightening of immigration rules; and (iv) the fragility and opacity of the banking sector.

**Public Financial Management**

| Lack of commitment from the Government to implement PFM strategy | Moderate | Continuous dialogue with the Government on public finance policy issues and PFM reforms, use of the EU aid delivery mechanisms (budget support conditionality and complementary capacity building) to facilitate and embed the reforms |

**EU budget support programme**

| Low predictability of budget support, delays in disbursements beyond the fiscal years they are planned for | Moderate | Use of clearly defined and realistic conditions for disbursement, clear and focused design of the Programme, minimisation of the differences in interpretation regarding performance and calculation of payments |

**Corruption and fraud**

| Political resistance to implementing anti-corruption measures and increasing public sector transparency | Substantial | Continuous dialogue with the Government to apply rigorously the anti-corruption legislation and rules, as well as monitoring of corruption cases and their legal consequences |

Corruption and fraud are the risk areas for EU budget support programmes.

The on-going Public Administration Reform supported important developments towards an integral and efficient public service. A legal framework is being implemented which targets corruption (consisting of Law on public service and status of public servant, Law on conflict of interest, including a Code of conduct, Law on public functions and Law on National Integrity Commission) and includes subsequent bylaws. Laws and amendments on status and professional activity of judges and prosecutors were adopted that reduce their universal immunities and allow investigation and prosecution of magistrates for corruption related acts. The Introduction of professional integrity testing and lifestyle checks in the public sector is underway. Financial Management and Control systems are being introduced in the public sector that will ensure sound financial management of public funds. International Financial Reporting Standards (IFRS) are being introduced to the private sector. Low capacity and lack of political will for implementation are risks, despite a generally good legal framework.

Legislation to reform the National Anticorruption Centre, re-subordinated from the Legislative to the Executive, have been approved as well as the National Integrity Commission has been set up and made operational. The reform of the Prosecutor's General Office has been initiated with strong emphasis on the reform of the Anti-corruption Prosecution system.
3. **Detailed Description of the Budget Support Contract**

3.1. **Objectives**

**Objectives**

The *overall objectives* of this programme are: 1) to assist the Government of Moldova in eradicating poverty, promoting sustainable and inclusive growth, and consolidating and improving democratic and economic governance; 2) to foster confidence building in Moldova, by targeting - through a specific component - those regions of Moldova that have tense relationships with central authorities.

The *specific objectives* are to: 1) improve the financial capability of the government to achieve agricultural and rural development policy objectives; 2) promote agricultural and rural development policies and reforms; 3) improve service delivery in the agricultural and rural sector; 4) improve governance in agricultural and rural development; 5) address the basic needs of the population; 6) sustainable management of natural resources, including water and biodiversity and 7) foster rapprochement between Government of Moldova and regional authorities of those regions of Moldova that have tense relationships with central authorities.

3.2. **Expected results**

The expected results of this intervention are:

- Improved design and implementation of agricultural and rural development policies, notably with respect to:
  - legal and regulatory frameworks;
  - institutional strengthening and capacity building of agriculture and rural development policy and implementation bodies.

- Improved service delivery, notably with respect to:
  - In the area of competitiveness of the agricultural and agri-food sector through restructuring and modernisation:
    - increased investment in the modernisation of the agriculture, agri-food and feed chains meeting EU food safety and quality requirements;
    - improved education, research and extension services in the agriculture, agri-food sector, including facilitating information systems, and
    - improved access to capital, input and output markets for farmers.
  - In the area of ensuring the sustainable management of natural resources:
    - improved sustainable agricultural land and water management practices;
    - increased use of environmentally friendly production practices and products ensuring biodiversity;
    - reduction of the agriculture areas affected by natural disasters (floods and droughts); and
    - mitigation of climate change.
In the area of improving conditions for living and working in rural areas:

- enhanced investment in physical infrastructure in support of the development of the agricultural and agri-food sector; and

- Increased employment and income opportunities in rural areas in support of the agricultural and the agri-food sector. Improvements in key indicators of service delivery with respect to reduced geographical and gender disparities of access and quality.

- The regions of Moldova that have tense relationships with national authorities are fully involved and grasp the benefits of the National Agriculture and Rural Development Strategy (ARDS).

- For the Confidence Building Measures component, it is suggested to develop an intervention focusing on three pillars: 1) Enhanced dialogue between central and regional authorities that experience tense relations with central authorities on Agriculture and Rural Development (through experts missions, seminars, joint study tours etc.); 2) Promotion of local entrepreneurship; 3) Mobilisation and capacity building of regional and local authorities and refurbishment of small-scale infrastructures. In this respect, it is proposed to replicate and amplify the intervention logic tested successfully in the Left bank of the Nistru/Dniester River\(^\text{55}\).

Complementary support combined with specific measures planned under the Comprehensive Institution Building (CIB) programme (including, amongst others: support to the Food Safety Agency, support to equipment purchase for food laboratories and support to IT food traceability system) will provide capacity building and institutional strengthening support to the action stakeholders during the implementation of this SRC. In addition complementary support is expected to enhance civil society organisations and local authorities associations’ role in monitoring, implementation of the action and participating in regional/rural policy dialogue. Such support, especially in the field of designing, establishing, maintaining and upgrading stringent SRC M&E systems will also, on the one hand, measure progress in attaining the specific SRC reform conditions set and, on the other hand, will facilitate and ensure a transparent implementation process of the SRC as a whole.

3.3. **Rationale for the amounts allocated for budget support**

The total amount allocated for budget support under this programme is EUR 53 million.

The rationale for this amount is based on a broad qualitative assessment that took into account, inter alia, an analysis of the following elements:

- Financing needs of the partner country;

- Commitment of the partner country to allocate national budget resources (including EU budget support) in line with development strategy and objectives and to follow standard national budget procedures;

- Track record and absorption capacity of past disbursements and how effectively agreed objectives were achieved with budget support operations.

The Agriculture and Rural Development Strategy 2014-2020 (ARDS) is centred on subsidies in agriculture and the rural development sector. Overall subsidy applications to Agency for

\(^{55}\) Cf. ENPI/2012/284-007 Support to Confidence Building Measures, which includes Component 1 focussing on cross-river development and Component 2 on Infrastructures.
Intervention and Payment in Agriculture (AIPA) in 2012 amounted to MDL 3.5 billion (requiring a subsidy fund of MDL 700 million at 20% to meet the applications in full, against the MDL 400 million available). The budget scenario set out in the ARDS is based on total subsidy applications of MDL 4 billion in 2014, rising by 10% per year thereafter, with the average subsidy rate increased from an average of 20% to 30%. As such, the budget scenario of the ARDS for 2014, for instance, indicates a total amount of MDL 4 billion investments, requiring a subsidy fund increase of 300% to MDL 1.2 billion in order to meet the applications in full.

The total 2014 budget approved for the MAFI amounts to MDL 1 238 million (approximately EUR 69 million, representing 4.4% of total state budget expenditures). Although this represents a 8% decrease in expenditure against 2013 MAFI budget (MDL 1 348 million), it does represent a significant increase of 26% in expenditure against 2012 MAFI budget (MDL 986 million).

Within the framework of national agricultural and rural policy, in particular the ARDS 2014, and increased subsidy applications, the proposed SRC is crucial. It is expected to create the required additional fiscal space for the Government to be able to implement the ambitious overall sector reform goals laid out, amongst others, in the ARDS.

This action will concretely enhance the prospects for executing future and more ambitious sector expenditure plans to be set out in the State Budgets of Moldova. It is therefore important to ensure coordination of the Ministry of Finance and the Ministry of Agriculture and Food Industry, which will to report to EU Delegation to Moldova concerning the tasks implemented and the targets achieved.

### 3.4. Main activities

Main activities to be carried out within the framework of this programme will include:

- Continued policy dialogue with the Government with a particular focus on areas reflected in the programme's objectives;
- Regular monitoring of budget support eligibility criteria of macro-economic and PFM developments, budget transparency, as well as progress in implementation of the public policy;
- Transfer of funds to State Budget against the achieved results from the policy matrix;
- Continued effort to reinforce Government's capacities in the area of PFM in the context of existing programmes;
- Continued dialogue between the EU Delegation and other donors to coordinate and further align our development cooperation with a view to avoiding duplication of activities and relieving the Government from multiple reporting duties.

Budget Support will also be accompanied complementary support measures.

### 3.4.1. Budget Support

Main activities to be carried out within the framework of the Budget Support component of this SRC will include:

- Engagement in dialogue around conditions and Government reform priorities;
Verification of conditions and the payment of budget support against the results achieved according to the policy matrix.

3.4.2. Complementary support

Main activities to be carried out will include:

- Grants/Call for Proposal to promote Civil Society Organisations’ (CSOs) and local authorities involvement in the implementation of ARD policy supporting especially actions that are gender equality and woman empowerment oriented;
- Call for proposal for capacity building of the Agricultural Intervention and Payment Agency (AIPA) through a Twinning project;
- Procurement of a Technical Assistance (TA) service contract to accompany the implementation of the SRC. Main activities foreseen include capacity-building and institutional-strengthening TA services in the area of:
  - improving competitiveness of the agri-food sector through restructuring and modernisation;
  - ensuring the sustainable management of natural resources including water and biodiversity;
  - improving adjustment to the EU food safety and quality standards as specified in the AA/DCFTA;
  - improving conditions for living and working in rural areas covering, amongst others: the development of agri-food sector physical infrastructure; stimulating local community involvement in rural development, including by benefitting from the LEADER best practices;
  - supporting, especially MAFI, in designing, carrying out and reporting on the accompanying SRC performance achievements using proven M&E tools;
  - supporting, especially MAFI and its subordinated agencies, in improving the effectiveness and efficiency of their operations and staff skills through the design and delivery of cross-component or component-specific capacity-building and institutional-strengthening actions including - but not limited to - formal training, study tours, mentoring approaches, etc.
- Procurement of evaluation and audit missions;
- Confidence Building Measures for those regions of Moldova that have a tense relationship with central authorities - Indirect Management Delegation Agreement with UNDP.

3.5. Donor coordination

Agriculture and Rural Development

Donor coordination in Moldova is characterised by governmental ownership, mutual accountability through a high level Joint Partnership Council and a transparent gathering and presentation of all donor related information.

There is a large number of donors, both multilateral as well as bi-lateral, assisting Moldova in the field of agriculture and rural development. The most significant of these are the European
Union (e.g. ESRA sectoral budget support programme, support to the use of biomass for energy - and EIB – Wine Sector Restructuring Programme), United States (USAID - Agricultural Competitiveness and Enterprise Development Project and MCC – High Value Agriculture and Irrigation Infrastructure Reconstruction Programme) and World Bank (Rural Investment and Services Project and Moldova Agricultural Competitiveness Project). Most of these donor programmes and projects have a strong capacity-building and institutional-strengthening component that will undoubtedly contribute to the sector reform focus envisaged under this programme.

Both the State Chancellery as well as the Ministry for Agriculture and Food Industries (MAFI) organise at regular intervals national or sector coordination council meetings to which involved donor organisations are invited. During these meetings, intervention coordination between the different donor institutions is sought after in view of either creating intervention synergies and/or avoiding duplications and overlaps. Both the State Chancellery as well as MAFI try to ensure that donor interventions are in line with the 2014-2020 NDS or the different sector strategies.

**Confidence Building Measures**

A relatively low share of international assistance is redirected by the central authorities to regions that have tense relationships with central authorities like, for instance, Gagauzia. Turkey, which enjoys close cultural links with the Gagauz people, has developed some direct assistance programme to the region in the fields of irrigation and post-secondary education. The USAID is implementing a nation-wide programme to support local authorities that has benefitted to Comrat City Hall.

The OSCE has been active in documenting and brokering discussions on a potential reform of the autonomous status though the organization does not provide direct funding to the region.

The EU, in the framework of the energy and biomass projects\(^{56}\), has funded seven local projects. In addition, the EU Delegation is currently considering the possibility to redirect part of the funds committed under the support to Confidence Building Measures programme\(^ {57}\) in order to provide immediate and highly visible assistance to the region by refurbishing small-scale social infrastructures.

Under Decision ENPI/2013/024-401 (Confidence Building Measures IV), EUR 5 million are earmarked to support the creation of an enabling environment for regional development by building institutional capacity and local authorities and civil society engagement. In this respect, the proposed action, by focusing on socio-economic development and business, would contribute to long term, consistent and inclusive development of the region.

### 3.6. Stakeholders

In Moldova the State Chancellery is responsible for leading and coordinating the overall reform process. At sector level, it is primarily the Ministry for Agriculture and Food Industry that is responsible for agriculture and food industry development policy-setting, and seeks competence in rural development. Specialised agencies, including the Agricultural Intervention and Payment Agency (AIPA) are responsible for the actual implementation of policy. The Ministry of Finance will play a crucial role in planning and financing the programmes determined for agriculture and rural development.

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56 ENPI/2010/258-556 Moldova Energy and Biomass Project
57 ENPI/2012/284-007 (EC) Support to Confidence Building Measures
For this particular SRC, the main stakeholders will be the Ministry of Agriculture and Food Industry (MAFI) and its subordinated agencies including the Agriculture Intervention and Payments Agency (AIPA), the Agriculture Information Centre (AIC) and the National Office of Vine and Wine. Other important stakeholders will include the National Food Safety Agency (ANSA), the Moldsilva Agency (forest and hunting) and Apele Moldovei (water resources), which are subordinated to other Moldovan governmental agencies than MAFI as well the National Bureau of Statistics. Also included will be the service providers, notably the agricultural education and research institutions, the National Agency for Rural Development, the Regional Environmental Centre - Moldova and other service-providing NGOs.

Main indirect stakeholders and ultimate beneficiaries of the SRC will be the Moldovan farmers, agricultural enterprises and rural population at large that will, especially, benefit from improved service delivery, improved competitiveness of the agri-food sector through restructuring and modernisation, improved and sustainable management of natural resources and improved living and working conditions in rural areas.

The SRC will also contribute to Moldova’s on-going decentralisation reform process, which aims at consolidating the capacities of the local public administration authorities as well as improving the management and the quality of public services provided to the citizens. Despite initial good progress, the decentralisation process in Moldova has recently stalled, not in the least due to the “ politicising” of the whole process by certain political parties, especially within the opposition.

3.7. Conclusion on the balance between risks (2.6.) and expected benefits/results (3.2.)

Comparing the expected benefits and results as enumerated in section 3.2. to the risks listed in section 2.6 of this Action Document, the potential benefits/expected results of the envisaged budget support programme far outweigh any risks identified.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4. and 4.4. will be carried out, is 60 months from the date of entry into force of the financing agreement or, where none is concluded, from the adoption of this Action document, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The European Parliament and the relevant Committee shall be informed of the extension of the operational implementation period within one month of that extension being granted.

4.3. Criteria and indicative schedule of disbursement of budget support

The general conditions for disbursement of all tranches are as follows: Satisfactory progress in the implementation of the action-relevant chapters of the Agriculture and Rural
Development Strategy (ARDS) and continued credibility and relevance thereof; implementation of a credible stability-oriented macroeconomic policy; satisfactory progress in the implementation of the Strategy for Development of Public Finance Management 2013-2020; satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

The specific conditions for variable payment tranches may be covering the following three budget support component areas: a) agricultural and agri-food sector modernisation and restructuring; b) ensuring the sustainable management of natural resources and c) improving living and working conditions in rural areas.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on fiscal year of the partner country.

<table>
<thead>
<tr>
<th>Type of tranche</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base tranche</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>17</td>
</tr>
<tr>
<td>Variable tranche</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>17</td>
</tr>
</tbody>
</table>

4.4. Details on complementary support

4.4.1. Grants: call for proposal “Strengthening role of civil society and local authorities in ENPARD context” (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The objective of the grants is to support specific ARD sector development actions, especially actions that are gender equality and woman empowerment oriented, enhancing civil society organisations and local authority associations’ role.

Expected results of this action are: a) stronger gender equality and woman empowerment consciousness by MAFI and subordinated agencies whilst implementing the ARDS; b) better monitoring and evaluation quality and enhanced understanding of the ARDS implementation by the Moldovan “public” at large and c) enhanced sector policy dialogue between government and local authorities as well as sector-relevant CSOs, especially SME organisations.

(b) Eligibility conditions

Application is open to local/international CSOs including CSOs that are SME associations and to local authorities.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.
The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

Priority will be given to the actions that are promoting cooperation and improving structured dialogue between civil society organizations, local authorities and relevant line ministries.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80%.

The maximum possible rate of co-financing may be up to 100% in accordance with Article 192 of Regulation (EU, Euratom) No 966/2012 if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative quarter to launch the call

1st quarter of 2015.

4.4.2. Grants: call for proposal for Twinning project with AIPA

(a) Objectives

The Twinning call for proposal modality will be used for implementing actions under objectives defined in section 3.1, providing assistance to the Agency for Intervention and Payment in Agriculture (AIPA) with the objective of strengthening the institutional capacity to administer agriculture and rural development support measures in line with EU norms and standards.

(b) Eligibility conditions

In line with Article 5(10)(b) of Regulation (EU) No 236/2014, participation in Twinning call for proposals is limited to public administrations of the EU member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are the technical expertise of the applicant and the relevant methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for the twining grant contracts is 100%.  

(e) Indicative quarter to launch the call

2nd quarter of 2015.

(f) Use of lump sums/flat rates/unit costs

Twinning contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. This system of unit costs and flat rate financing exceeds the amount of EUR 60 000 per beneficiary of a Twinning contract.

58 As provided for in the Twinning Manual.
4.4.3. Procurement (direct management)

<table>
<thead>
<tr>
<th>Subject</th>
<th>Type (works, supplies, services)</th>
<th>Indicative number of contracts</th>
<th>Indicative quarter of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accompanying TA to the SRC “ENPARD”</td>
<td>Services</td>
<td>1</td>
<td>Q2 2015</td>
</tr>
<tr>
<td>Evaluation and Audits</td>
<td>Services</td>
<td>2</td>
<td>Q4 2016</td>
</tr>
</tbody>
</table>

4.4.4. Indirect management with UNDP – Confidence Building Measures (CBM) in those regions of Moldova that have tensions with national authorities

A part of this action, with the objective of fostering the rapprochement between Moldova Government and Regional Authorities of those regions that have tense relationships with central authorities will be implemented in indirect management with the United Nations Development Programme (UNDP) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation is justified because of 1) Successful UNDP implementation of similar confidence building measures programmes in the Transnistrian region; 2) Building forward on lessons learnt and best practices from previous experience on engagement with regions having tense relationships with central authorities; 3) Knowledge of the region and of the local authorities; 4) Absence of credible implementing alternatives.

UNDP would undertake the following tasks:

a) Ensure enhanced dialogue between National and Regional Authorities that have tense relationships with central bodies - including Gagauzia - on Agriculture and Rural Development.

This component will aim at promoting dialogue between central and local authorities through expert missions, seminars, joint study tours in order to foster the local implementation of the ARDS and help the beneficiary regions to grasp its benefits. An ‘intervention package’ to enhance good governance and local public management in specified areas will be designed and applied. Benchmarking and peer review with similar municipalities from outside target regions will foster the exchange of best practices and experiences, and confidence building measures.

b) Promote local entrepreneurship.

Support will be provided to enhance SMEs development, strengthen and connect to national networks existing business support infrastructure; promote the culture of entrepreneurship through various innovative actions. Through targeted assistance programs access to finance will be improved and production based for SMEs will be diversified. Important sector development strategies will be updated and better represented in the national framework; together with specific support in the statistic field to improved availability of data.

c) Mobilise and build capacity of local authorities and refurbish small-scale infrastructures.
In line with Strategy for Agriculture and Rural Development (priority 3) support will be provided to enhance investment in physical infrastructure and rural services, as well as to stimulate local community involvement in rural development. To achieve that, a holistic approach will be pursued, encouraging the cooperation of rural inhabitants in decision making processes and development of their communities. Inter-municipal cooperation with other Moldovan localities will also be encouraged. In this respect, it is proposed to replicate –and amplify – the intervention logic tested successfully in the Left bank of the Nistru/Dniester River\(^{59}\).

For part of these tasks UNDP will conclude and manage contracts.

UNDP is currently undergoing the ex ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. In anticipation of the results of this review, the responsible authorising officer deems that, based on a preliminary evaluation and on the long-standing and problem-free cooperation with this entity, it can be entrusted with budget-implementation tasks under indirect management.

The change of management mode from indirect to direct management, whether partially or entirely is not considered a substantial change.

### 4.5. Scope of geographical eligibility for procurement

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) 236/2014 (CIR Regulation) on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

### 4.6. Indicative budget

<table>
<thead>
<tr>
<th>Module</th>
<th>EU contribution (in EUR millions)</th>
<th>Third party contribution (indicative in EUR millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.4.1. – Budget support</td>
<td>53</td>
<td>N.A.</td>
</tr>
<tr>
<td>3.4.2. – Complementary support</td>
<td>11</td>
<td>0.075</td>
</tr>
<tr>
<td>4.4.1. – Call for proposals “Strengthening the role of civil society in the ENPARD context” (direct management)</td>
<td>0.3</td>
<td>0.075</td>
</tr>
<tr>
<td>4.4.2 – AIPA Twinning Project (direct management)</td>
<td>1.2</td>
<td>N.A.</td>
</tr>
<tr>
<td>4.4.3. – Procurement (direct management)</td>
<td>2.8</td>
<td>N.A.</td>
</tr>
<tr>
<td>4.4.4. – CBM (indirect management with UNDP)</td>
<td>6.5</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

\(^{59}\) Cf. ENPI/2012/284-007 (EC) Support to Confidence Building Measures, which includes Component 1 focussing on cross-river development and Component 2 on Infrastructures.
4.7. Performance monitoring

Monitoring missions will take place at the end of the financial year to review the progress of the reform, checking financial and budget executions reports in order to collect evidence on the funding and the budget allocations.

Six-monthly programme steering committee meetings, organised and held under the auspices of MAFI, and to which all relevant action stakeholders including EU Delegation to Moldova will be invited, will review and assess overall performance in achieving the SRC’s reform objectives and indicators. At these meeting corrective measures, if so warranted, will also be discussed and agreed upon.

4.8. Evaluations and audit

The European Commission foresees to launch evaluations and audits during the implementation and after completion of the Programme.

4.9. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures, which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated before the start of implementation and supported with the budget indicated in section 4.6 above.

The measures shall be implemented either (a) by the Commission, and/or (b) by the partner country, contractors, grant beneficiaries and entrusted entities. Appropriate contractual obligations shall be included in, respectively, financing agreements, procurement, grant contracts and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

As part of the Financing Agreement, the Moldovan government undertakes to ensure that the visibility of the EU contribution to the SRC is given appropriate coverage in the various publicity media. The accompanying TA Service Contract will endeavour to further enhance the positive image of the EU in the context of its work in Moldova and specific provision for this purpose will be included in this TA Service Contract.

At appropriate milestones during the SRC duration and after appropriate events, press releases will be issued, by MAFI in co-operation with the EU Delegation to Moldova. In all these actions, the EU visibility guidelines will be strictly adhered to.