



EN

ANNEX

of the Commission Implementing Decision on the Annual Action Programme Part 2 for 2020 in favour of the Republic of Moldova

THIS ACTION IS FUNDED BY THE EUROPEAN UNION

Action Document for COVID-19 Resilience Contract for the Republic of Moldova

ANNUAL PROGRAMME/MEASURE

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.

1. Title/basic act/ CRIS number	COVID-19 Resilience Contract for the Republic of Moldova CRIS number: ENI/2020/42924 financed under the European Neighbourhood Instrument (ENI)
2. Zone benefiting from the action/location	The Republic of Moldova The action shall be carried out at the following location: countrywide
3. Programming document (if applicable)	Single Support Framework for EU support to the Republic of Moldova (2017-2020) ¹
4. Sustainable Development Goals (SDGs) (if applicable)	Main SDGs: - SDG 1 End poverty in all its forms everywhere - SDG 3 Good health and well-being - SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all Other significant SDGs: - SDG 10 Reduced inequalities

¹ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/single_support_framework_2017-2020.pdf

5. Sector of intervention/ thematic area	Economic development and market opportunities Strengthening institutions and good governance			
6. Amounts concerned	Total amount of European Union (EU) contribution EUR 15 000 000 of which EUR 15 000 000 for Budget Support			
7. Aid modality(ies) and implementation modality(ies)	Budget support Direct management through: Budget Support (COVID 19 Resilience Contract)			
8 a) DAC code(s)	12110 - Health policy and administrative management 15142 - Macroeconomic policy			
8 b) Main Delivery Channel	12000 – Recipient government			
9. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and Women's and Girl's Empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Internal markers	Policy objectives	Not targeted	Significant objective	Principal objective
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	COVID response	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

1 BACKGROUND AND CONTEXT DESCRIPTION

1.1 Context and problem description

COVID 19 in Moldova: situation and impact

The global COVID-19 outbreak considerably affected the healthcare systems, societies and economies of countries around the globe. According to Oxford Economics sovereign risk indicator (SRI), Moldova, together with Ukraine, remains among the riskiest countries in the Central and Eastern Europe (CEE) - Commonwealth of Independent States (CIS) region².

Despite recent progress, the health system of the Republic of Moldova remains comparatively weak within the broader European continent. This issue was especially exacerbated in the face of the unprecedented global health crisis, which the Republic of Moldova had to face with a generally low level of preparedness and capacity to respond effectively to the public health impact of the COVID-19.

The COVID-19 outbreak in Moldova started on March 7, 2020 and on March 17, 2020, Moldova's Parliament declared a State of Emergency until May 15, 2020. A National Public Health Emergency was declared from 16 May to 30 June, following the expiration of the National State of Emergency. Taking into consideration the increasing number of registered cases, the National Public Health Emergency was extended until the 15th of September. The country's infection rate is among the highest in Europe, with 1768 cases per 100,000³. The total number of cases registered by 8 September was 40,556 and the total number of deaths reached 1,087. There were 10,507 active cases of COVID-19. The total number of patients who have recovered from the disease during the same period was 28,962. The share of health care workers in the total number of cases is 12%. Over 4,000 doctors, nurses, medical assistants and other staff from the health care sector have been infected, 30 doctors died.

Based on UN WOMEN assessment of COVID-19 impact on gender roles⁴, COVID-19 pandemic determined a number of changes and impacts on the population, internalised differently by women and men. The outbreak impacts differently men and women, both economically and socially. This is also determined by the different roles women and men play in the society and family. Children in homes that have lost income, are at greatly increased risk of abuse, neglect, exploitation and violence, or lack of stimulation or learning opportunities. In the medium-term, economic stressors may result in deteriorating situations in the home, as well as increased school dropouts, child labour, child sexual abuse, child marriage, family separation, irregular migration or trafficking and other protection issues.

The economic crisis caused by the COVID-19 pandemic is increasingly affecting the public finances. In just six months (January-June 2020), the external and internal public debt

² <https://www.oxfordeconomics.com/recent-releases/Republic-of-Moldova-Bracing-for-domestic-and-external-Covid-19-shocks>

³ <https://www.statista.com/statistics/1110187/coronavirus-incidence-europe-by-country/>

⁴ <https://moldova.unwomen.org/en/biblioteca-digitala/publicatii/2020/09/gender-assessment-on-covid-19>

increased by more than 13.5% and reached 29.2% as a share of Gross Domestic Product (GDP) at the end of June 2020, which is 4.2 percentage points higher compared to the end of 2019.

According to the latest International Monetary Fund (IMF) projections, the unemployment rate will rise to 5% in 2021, which represents a 67% increase compared to 3% in 2019. The macroeconomic package adopted by Moldova to tackle the COVID-19 crisis stands at 3.2 billion Moldovan Lei (MDL), or approximately 1.6% of the country's annual GDP which is considerably below the Southeast Europe countries and EU averages.⁵ The fiscal incentives encompass MDL 2.1 billion aimed at support of the economy and MDL 1.1 billion for targeted social assistance and unemployment benefits. Fiscal measures for businesses include increasing budget allocations to the healthcare sector, tax reliefs for the economic sectors most affected by the regulatory restrictions, temporary reduction of Value Added Tax (VAT) for food and hospitality services and suspension of other tax repayments for businesses and individuals. Additional measures are targeted at facilitating access to credit financing and support for entrepreneurs.

EU response to COVID-19 crisis

In April 2020, the "Team Europe" package was launched to support the European Union (EU) partner countries in the fight against the COVID-19 pandemic and its consequences. Almost **36 billion euro** have been mobilised and will be used to address the devastating effects of the COVID-19 crisis in partner countries and regions⁶.

The first set of measures from the EU specifically for Moldova was to redirect over EUR 87 million from existing projects to support immediate and short-term needs of the Republic of Moldova providing protection sets such as gloves and masks for vulnerable people and medical staff, as well as sterilizers for equipment across the country.

In order to respond to the pandemic and provide a long-term solution to its impact on health, economy and social protection, the Annual Action Programme 2020 (AAP 2020) was adopted in July 2020. The AAP 2020 contains two main action documents focused on local communities development and facility to support the health response to the COVID-crisis and Association Agreement-related reforms. In addition to this, and as a part 2 of the AAP 2020, the current action document will support an effective response to COVID-19 economic impact and will strengthen the national capacity to effectively address it.

On July 10, 2020, the European Commission, on behalf of the EU, has approved the disbursement of EUR 30 million as the second tranche of the macro-financial assistance (MFA) to the Republic of Moldova on the basis of the Memorandum of Understanding (MoU) signed in 2019. It is composed of EUR 10 million in grants and EUR 20 million in

⁵ <https://seenews.com/news/see-economies-heavily-dependent-on-covid-vulnerable-sectors-study-708104>

⁶ <https://www.consilium.europa.eu/en/press/press-releases/2020/06/08/team-europe-global-response-to-covid-19-council-welcomes-the-mobilisation-of-almost-36-billion-and-approvesconclusions/>

low-interest, long-term loans. The programme expired in July 2020 without the final, third tranche being disbursed. In parallel, the EU and the Republic of Moldova have concluded in July 2020 a new emergency MFA in the amount of EUR 100 million for the next 12 months. The programme is designed to assist Moldova in covering its external financing needs, which is especially important in light of the coronavirus pandemic, while implementing a wide-ranging and ambitious reform agenda.

However, taking into consideration the long-term impact of the crisis and necessary measures to be implemented in different sectors, as set out in the section below, additional support is needed. In line with the Single Support Framework for EU support to the Republic of Moldova (2017-2020) and the Joint Communication on the future of Eastern Partnership from 18 March 2020, the response by the EU to the devastating effects of the COVID-19 crisis under the “Team Europe” approach calls for a new budget support programme targeting immediate financial needs of Moldova and supporting the COVID recovery plan.

COVID-19 POLICY RESPONSE/ROADMAP FOR RECOVERY

In order to respond to the crisis, the National Emergency Preparedness and Response Plan was developed and endorsed by the National Committee for Public Health Emergency⁷ on March 13, 2020.

The Plan covers key areas including coordination of preparedness and response, epidemiological surveillance, and case investigation and rapid response. The Government also convened the Extraordinary National Public Health Commission to ensure inter-sectoral coordination and communication in implementing public health related warnings and activities.

World Health Organisation (WHO) in cooperation with the Ministry of Health, Labour and Social Protection and development partners developed a comprehensive Needs Assessment of the Health System in Moldova to respond to the COVID-19 crisis. As a result, a large deficit was identified on Personal Protection Equipment (PPE), health equipment (ventilators, oxygen concentrators, etc.), medicine and consumables. The total cost of the response has been estimated at approx. EUR 32 million, of which EUR 30 million were requested to be covered by development partners. Since then, the figures have been revised upwards.

In order to finance a range of measures to tackle the impact of the pandemic, the government amended its 2020 budget law. The authorities announced that MDL 2.1 billion (approx⁸. EUR 102 million) would be allocated to support the economy and businesses, and MDL 1.06 billion (EUR 50 million) to social insurance, including MDL 180 million (EUR 8.5 million) for unemployment benefits.

The Government of the Republic of Moldova decided to offer fiscal support for enterprises and individuals, as well as postponing interest on loans. For businesses, which stopped their

⁷ https://msmps.gov.md/sites/default/files/legislatie/plan_raspuns_covid-19_1.docx

⁸ Exchange rate 1 USD = 0.85 EUR

activities due to the pandemic, the government has announced state subsidies to cover social, health insurance contributions, and other taxes. For patent holders who ceased their activities during the state of emergency, an exemption from patent payment has been guaranteed. An extension period for payment for all types of local taxes until the end of July has been foreseen. With the extension of the state of healthcare emergency until 31 August 2020, certain tax facilitation measures for business have been prolonged accordingly, such as subsidies for business tied to payroll taxes (Personal Income Tax, social contributions). 301 economic operators benefited from subsidies amounting to MDL 31.5 million.

A range of additional packages of socio-economic measures to support the population and businesses during the state of emergency was approved on 21 April. The measures include an increase in the amount of unemployment benefits by almost 55% and the extension of eligibility criteria for unemployment benefits. The large number of labour migrants, who returned to the country after losing their jobs abroad, will be automatically entitled to this social allowance. The state safety net level (minimum guaranteed monthly income), designed to support low income families, has been increased by almost 20%. A mortgage guarantee programme has also been put in place. Education has moved to using alternative online education platforms from 7 April.

Although the government developed some economic and fiscal measures within the state of emergency, there is no comprehensive COVID-19 response economic relief package. By the end of September 2020, the United Nations Development Programme (UNDP) will lead a socio-economic impact assessment of needs and impact of the pandemic in the Republic of Moldova which aims to support the Government in assessing the immediate and projecting the medium-term and long-term impact of the COVID-19 crisis. The assessment will end with the development of specific policy recommendations and updated programmatic opportunities for the Government, United Nations (UN) agencies, and development partners⁹.

1.2 Other areas of assessment

1.2.1 *Fundamental values*

The Republic of Moldova has demonstrated commitments to fundamental values as also set out in the EU-Moldova Association Agreement. During the previous years, the EU and other international partners had to react at certain moments of Moldova's backsliding on democratic standards or rule of law, e.g. the cancellation of Chisinau mayoral elections in 2018 or in connection with the bank fraud that caused damage worth around 12% of the country's GDP. Fundamental rights and duties of Moldovan citizens are stipulated in the Constitution of the Republic of Moldova in line with the main international standards. The following issues call for regular dialogue and monitoring: the reform of the justice sector, ensuring its independence, accountability and the impartiality of the judiciary, fight against corruption and money-laundering, investigation of the banking fraud and prosecution of those responsible for

⁹<https://www.undp.org/content/dam/undp/library/covid19/United%20Nations%20Moldova%20Covid-19%20Response%20and%20Recovery%20Plan%2015June20.pdf>

the banking fraud in a transparent and impartial manner, fight against corruption and anti-money laundering, strengthening of independent institutions, free and fair, credible, inclusive and transparent elections in line with international standards, freedom of media, the effective implementation of the anti-discrimination law, rights of persons with disabilities, labour rights, child protection, gender equality and violence against women and domestic violence.

Conduct of presidential elections and the election campaign in a credible, inclusive and transparent manner, in line with international standards and taking into account the recommendations by the Organization for Security and Co-operation in Europe (OSCE) / Office for Democratic Institutions and Human Rights (ODIHR), the Venice Commission and the Group of States against Corruption (GRECO), including those related to transparency and oversight of campaign finances, equal access to media with fair and unbiased presentation of all candidates, proportionate sanctions for election and campaign violations, including for the use of administrative resources, effective complaints system, and with appropriate number of polling stations (also abroad), is considered an essential element in assessing compliance with fundamental values.

1.2.2 *Macroeconomic policy*

The Republic of Moldova has been implementing stability-oriented policies in the context of an IMF programme. Based on the latest available estimates, the COVID-19 crisis is however expected to hit the country as follows:

- Economic activity in Moldova has weakened considerably as of March when the country borders were closed and a nationwide lockdown to contain the spread of the virus was imposed. In addition, the country will be negatively affected by reduced global demand. Remittances, which account for a high share of the country's economy, are likely to drop considerably and lead to lower domestic consumption.
- As a result, Republic of Moldova is set for a recession in 2020, with a contraction of 3.1% likely to take place due to lower external and domestic demand, aggravated by a significant slowdown in remittances. A prolonged disruption of economic activities until August 2020 would cause growth fall by 5.2 percent, the biggest drop since 2009.
- The original budget for 2020 planned for a deficit of Moldovan Lei (MDL) 7.4 billion or 3.3% of GDP, an increase by 30% compared to 2019, primarily due to a planned increase in capital expenditures by 250% that should to a large extent have been financed by external borrowing. The COVID-19 crisis has, however, completely derailed the fiscal outlook and the budget was amended in April 2020 to take into consideration the implications of the crisis. In the amended budget, revenues were decreased with 14% and expenditures increased with 4%. The budget deficit was revised to MDL 16 billion (7.6% of GDP).

- COVID-19 impact on micro- and SMEs was assessed through a rapid survey conducted by the American Chamber of Commerce (AmCham) Moldova amongst 315 companies from over 20 sectors within the period of March 30 – April 6, 2020. Most respondent firms reported they had faced demand shocks as a key challenge, out of which 64% were facing raw material and supply chain challenges, and 87% were affected by the recurrent capital shortage. More than 60% of private firms informed that they expect a reduction of their revenues by more than one third compared to 2019. The hardest-hit sectors are the hospitality and tourism sectors (63 and 64%, respectively) followed by textiles (50%), automobile (42%), financial non-banking sector and pharmaceuticals (40%), as well as the IT-sector (38%).

Key indicator trend table¹⁰

Indicator	2017	2018	2019	2020 f
Nominal GDP, MDL billion	178 881	192,509	210,099	212,536
Real GDP (% real change)	4.7%	4.3%	3.6%	-3.1%
Consumption, % real change	4.8%	4.0%	2.7%	-0.2%
Gross fixed investment, % real change	11.6%	15.6%	9.4%	-14.9%
Exports (% real change)	10.9%	7.2%	7.3%	-6.0%
Consumer price index, % change, average	6.6	3.1	4.7	3.6
Current account balance (% GDP)	-5.7	-10.6	-9.7	-10.2
Remittances, % change, USD	3.3	9.4	1.4	-15
Net Foreign Direct Investments (FDI), % of GDP	1.5	2.4	4.5	1.4
External debt, % of GDP	72.2	65.2	63.1	68.9
Budget revenue (% GDP)	29.8	30.1	30.0	28.3
Budget expenditures (% GDP)	30.5	31.0	31.4	34.1
Fiscal balance (% GDP)	-0.6	-0.8	-1.4	-5.8
Public and publicly guaranteed debt (% GDP)	32.7	30.2	27.5	33.1

The authorities have announced the following measures to cope with the crisis:

- Implementation of the Interest Subsidy Program;
- Implementation of the VAT refund program;
- Reduction of the VAT rate from 20% to 15% for the HORECA sector;
- Deduction of donation for tax purposes made to combat COVID 19;
- Failure to apply reverse charge to economic operators in the restructuring procedure;
- Supporting agricultural producers by increasing access to the application of the facility to pay social contributions (12% instead of 18%);

¹⁰ Source: WB Moldova Macroeconomic update, May 2020

- Ensuring a level playing field for domestic book production, which is currently at a disadvantage compared to the imported one (royalty exemption from royalty for book production);
- Facilitating the access of domestic producers in duty-free shops, by ensuring the same conditions with imported products.
- Measures to consolidate the budget revenues necessary to finance social expenditures (airport tax, portability tax, natural resources tax)

The financing of the budget deficit is not fully secured, but emergency financing from the IMF (USD 235 million already disbursed in April 2020), the EU and the World Bank would be able to cover a part of the deficit. An agreed loan from Russia of EUR 200 million was considered unconstitutional by the Moldovan Constitutional Court, but the government intends to renegotiate the terms of the loan. The government is taking steps to prepare for a potential issuing of eurobonds that could be done in the second half of 2020 (although it appears very uncertain if conditions can be expected to be ‘sufficiently favourable’ by then). On 27 July 2020, IMF staff and the Moldovan authorities have reached staff-level agreement on an economic reform program to be supported by three-year Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangements. It would allow Moldova to access about US\$ 558 million (c. 475 m EUR) of financial assistance. The new program will build on progress made under the previous program and strive to support Moldova’s post-pandemic recovery, and advance ambitious institutional reforms.

The authorities expect to receive additional support from the European Union and the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Federal Republic of Germany through Kreditanstalt für Wiederaufbau (KfW), and the World Bank Group (WB).

Close monitoring of the situation will be performed in coordination with the IMF and other partners such as the EBRD, the EIB and the World Bank.

In conclusion, the response to the crisis is assessed as relevant and credible to restore key macroeconomic balances.

1.2.3 Public Financial Management (PFM)

The Republic of Moldova has demonstrated progress in PFM and Domestic Revenue Mobilization (DRM) through the following key reforms:

- Expansion and strengthening of fiscal discipline, enhancement of multiannual and annual budgeting;
- Initiation of development of the national public accounting standards aligned to the international ones;
- Enhancement of debt management and development of domestic securities market;

- Improvements in public financial control and audit including enhancement of technical capacity in the Central Harmonization Unit (CHU) and selected line ministries;
- Revision of the legal framework for the Supreme Audit Institution and enhancement of capacities in financial and compliance audits;
- Enhancement of the parliamentary oversight of the budget through the establishment of a standing Public Accounts Committee (Committee for control of public finances), introduction of public hearings of the reports of the Court of Accounts;
- Increased transparency of budgetary process through citizen's budget and enrolment in Open Budget Index.

The Strategy for Improvement of Public Finance Management 2013-2020 is the key policy document used to assess the third eligibility condition.

Summary Appraisal PFM Progress and Reforms

As stated in EU Delegation Annual PFM Report for 2020, Moldova is making satisfactory progress in improving its PFM systems as well as ensuring the budget transparency. The PFM systems in Moldova are largely well established but weaknesses exist that undermine allocative and operational efficiency.

In 2019, the Ministry of Finance (MoF) continued the implementation of the PFM Reform Strategy satisfactorily, however the overall pace of reforms has slowed down mainly due to frequent changes of government, lack of capacities as well as the discontinuity of technical support after the end of EU Public Finance Policy Reforms (PFPR) programme (2015-2018). A new momentum was gained in institutional strengthening of the Court of Accounts and the recently established Parliamentary Committee on control of public finance (equivalent of Public Accounts Committee) thanks to a small scale EU technical assistance and collaboration with the EU/OECD Support for Improvement in Governance and Management initiative (SIGMA).

The current reform strategy expires in 2020 and a new reform document will have to be put in place for the period after 2021. An agreement was reached with the MoF that a national and sub-national Public Expenditure and Financial Accountability (PEFA) assessments will be conducted in 2020 by WB with EU financing, the launch is being delayed because of the pandemic and the ban on signing agreements with World Bank, which is currently being lifted.

The MoF has made considerable progress made on improving **revenue projections**.

In the area of public **debt management**, the Ministry of Finance has undertaken a notable effort in expanding and deepening the domestic debt market as a means of diversifying the sources of deficit financing.

The Ministry of Finance has started rationalising and improving the Medium Term Budget Framework (**MTBF**) process.

The State Budget Law used an improved presentation format of the Budget addressing earlier problems of clarity and transparency.

There have been considerable improvements in the legal and regulatory framework governing **financial management and internal control** supported by an EU twinning project (2017-2019).

The Government has taken steps to improve the legislative framework in the area of **public procurement**.

There has also been some progress in the introduction of **e-procurement**.

The independent complaints and review body, the National Complaint Settlement Agency (NCSA) established in 2017, continued consolidating its role in the system during 2019.

Framework for the modernisation of **public external audit** and enhanced the independence of the Supreme Audit Institution has been created.

During 2019, the Court of Accounts continued carrying out audits of public institutions and fulfilling its mandate of external scrutiny of public finances.

A peer review has been planned in 2020 to be led by SIGMA with the participation of Turkish and Latvian SAIs.

In 2019, the new Standing Committee of Public Finance Control of the Parliament became operational.

The Committee on Economy, Budget and Finance remains tasked with function of reviewing the Government's draft Budget proposal prior to discussion in the Parliament's plenary and subsequent enactment into legislation. The Committee continues to hold several other functions related to the oversight of sectors in the economy. Both committees are in need of capacity strengthening to be able to carry out their mandates effectively.

As pointed out in the Annual PFM assessment, the key weaknesses in Moldovan PFM system refer to: adherence to the budget calendar, persisting inconsistencies between the policy framework captured in the MTBF and the annual budget, systemic dysfunctions in the programme-based budgeting system and the use of performance information as a merely bureaucratic process, dysfunctional budget classification, weak public investment planning and execution, slow progress in introduction of public sector accounting standards (mainly due to lacking capacities), low performance of public internal control and audit, disproportionate reliance on ex post financial inspection and investigation as opposed to exercising control through the systematic assessment of risks, quality of external audit / reports, not complete and outdated Financial Management Information System (FMIS) which is not comprehensively utilised by the Ministry of Finance (MoF) and other public institutions, lack of efficiency of public procurement and low performing e-procurement, fiscal risks related to the operations of State Owned Enterprises.

Domestic Revenue Mobilisation

Over recent years, Moldova has been making progress in enhancing domestic revenue mobilisation, which resulted in a stronger tax and customs performance in 2018-2019.

With regards to **tax policy**, one of the main problems in recent years has been the lack of stability in the policy framework and the very frequent changes in tax rates and other provisions.

Another critical issue is the considerable size of tax expenditures. Improving domestic revenue mobilisation through the streamlining of tax expenditures is considered as priority by the IMF and other developments partners.

The 2018 the Tax Administration Diagnostic Assessment Tool (TADAT) assessment identified some serious weaknesses in Moldova's tax administration system. 5 indicators out of 28 received the lowest score 'D' including integrity of the Registered Taxpayer Base, effective risk management, accurate reporting in declarations, efficient revenue management. It is noted that more than half of all tax revenues are collected by the Customs Service, which is mostly due to the collection of VAT on imports on border together with customs duties.

During 2019, the Government took some notable steps both in relation to tax policy and tax administration to enhance domestic revenue mobilisation potential. Important changes inter alia cover restrictions on tax-free sales in duty-free zones, cancellation of tax benefits for oil products sold in the customs control zone, limitation of some tax amnesty measures put in force from 1 January 2019, cancellation of tax exemptions granted to the gambling businesses, cancellation of the preferential 10% VAT rate in the HORECA (Hotel, Restaurant, Café) segment and setting it at 20%, increased excise taxes on tobacco products and products such as heat-not-burn.

According to a recent EU expert assessment, the Tax Code reflects most of the principles and objectives of the Council Directive 2006/112/EC on VAT, but there are significant legislative and conceptual elements that are still non-compliant with some essential elements of the Directive.

A new **Customs Code** is in the process of development. The Code's adoption by the Government and submission to Parliament was expected at the time of drafting this document. The new Customs Code was developed with technical assistance from the EU. If adopted, the Code will enter into force from 1 January 2022.

With regards to **tax administration** measures, the State Tax Service (STS) was reorganised during 2017-2018 with a single legal entity at headquarters in Chisinau and 4 regional tax administrations created. In 2019, an Intelligence Unit was established at STS. This unit has criminal investigation powers and is aimed at gathering, processing and analysing information from different sources for the purpose of fighting tax fraud.

Following advice from the IMF and other development partners, during 2019 the focus of reforms by STS has primarily been on the completion of the taxpayer registry, improvement of the audit function by developing a risk-based approach, and enhancement of the monitoring and addressing of tax evasion and avoidance risks in particular from large corporates and wealthy individuals. At the same time, the STS has approved a dedicated Action Plan aimed at improving VAT administration, including the establishment of a monitoring system of actual and potential VAT payers.

In 2019, with the assistance of the EU Twinning Project supporting the **Customs Service**, draft legislation and regulations were prepared for the implementation of New Computerised Transit System (NCTS). In addition, as part of the implementation of the National Action Plan for Trade Facilitation (Article 193 of the Association Agreement) steps have been taken towards the implementation the Customs Service of the Authorised Economic Operator (AEO) programme.

Based on this analysis, it is concluded that the PFM reform strategy remains relevant and credible. The crisis context will however require close monitoring of budgetary amendments, exceptional spending/procurement procedures through an enhanced policy dialogue with the authorities related to the EU emergency support, close coordination with other international partners active in crisis management, collaboration with civil society organisations carrying out watchdog activities.

1.2.4 Transparency and Oversight of the Budget

The entry point is met since the budget documentation is published and budgetary information is generally accessible, timely, comprehensive, and sound. External audit and control are also performed. The crisis context will however require close monitoring of exceptional procedures for budget amendment, preparation, approval and oversight of the multi-annual and annual budget for 2021.

Moldova has sustained a solid level of transparency in 2019 reflected by the systematic publication of draft and enacted Budgets. Moldova ranks relatively high in the Open Budget Survey (OBS) despite a slight deterioration from a score of 58 to 57 in the Open Budget Index between 2017 and 2019 surveys (the score for public participation in budgetary process was lowered to 4 from 7 out of 100)¹¹. Moldova is currently ranked 39th among 117 surveyed countries and is placed within the range *Limited Information Available* (scores 41-60)¹². It is noted that the 2019 OBS framework has been revised and is now considerably stricter than the earlier version.

¹¹ <https://survey.internationalbudget.org/#profile/MD>

¹² <https://www.internationalbudget.org/open-budget-survey/rankings>

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Political instability and poor conduct of the 2020 presidential elections.	H	Ensure continuous political dialogue and monitor the elections in line with the international standards.
The operational capacity of the government to implement the resilience contract and reach to the most vulnerable groups of society/business in the most efficient and timely manner during COVID-19 outbreak	M	Continuous policy dialogue on the Government's socio-economic response to the COVID-19 outbreak
Maintenance of stability-oriented macroeconomic policy and progress in the implementation of public finance management reforms.	M	IMF programme is approved and remains on track
Duplication of efforts and financial resources allocated by different development partners to mitigate the impact of COVID 19.	L	Strengthen aid donor coordination mechanisms between the development partners for the implementation of complementary initiatives.
Lack of capacity of the government to define and implement efficiently short and medium term response measures to address the pandemic	M	Pursue policy dialogue and technical support to the relevant public authorities, ensure close co-ordination with international partners, business community and civil society organisations.
Procurement in health sector lacks efficiency and transparency	H	Sustain policy dialogue and provide technical support to enhance efficiency and transparency of public procurement in health sector.
Assumptions		
<ul style="list-style-type: none"> • The Government of Moldova remains committed and able to allocate sufficient resources to support the implementation of the anti-crisis measures. • Policy Dialogue between justice sector actors, Parliament, Government, prosecutors, civil society and lawyers, is established. • Effective coordination between development partners, Civil Society Organisations (CSOs), social partners and private sector is in place. 		

3 COMPLEMENTARITY, SYNERGY AND DONOR COORDINATION

In the EU response to the crisis, synergies are sought between this programme and the following operations:

- COVID-19 related Macro-Financial Assistance (MFA) package for Moldova 2020;

- EU4Moldova: Facility to support the health response to the COVID-crisis and Association Agreement related Reforms;
- EU4Moldova: Local Communities project;
- EU4Moldova: Focal Regions project;
- EU project Strengthened Gender Action in Cahul and Ungheni districts;
- EU4Moldova: Start-up city Cahul;
- EUBAM Moldova/Ukraine Phase 12 (European Union Border Assistance Mission);
- European Union confidence Building Measures Programme V (2019-2022);
- EIB Energy Efficiency Project;
- World Bank’s Moldova Emergency COVID – 19 Project.

In the response of the international community, close coordination will be ensured between the EU and the following entities:

- International Financial Institutions (IMF, EBRD, EIB, World Bank Group, Kreditanstalt für Wiederaufbau (KfW)),
- UN Agencies (World Health Organization, United Nations Development Programme, United Nations Children's Fund, International Labour Organization);
- development agencies of the EU Member States (including through joint programming/joint actions under Team Europe approach), and with other involved partners like Swiss Agency for Development and Cooperation (SDC),
- United States Agency for International Development (USAID).

For the purpose of ensuring complementarity, synergy and coordination, the Commission may sign or enter into joint donor coordination declarations or statements and may participate in donor coordination structures, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

4 DESCRIPTION OF THE ACTION

The Action consists of a new budget support contract. The action objectives are in line with the COVID-19 Strategic Preparedness and Response to support coping with the immediate impact of the pandemic.

Results chain	Indicator ¹³	Source of data
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¹³ Formulation of the indicators has to be in a neutral form starting with the measurement unit as in the example (number of; percentage of; status of). Please note it is NOT required to specify baselines and targets.

Results chain			Indicator ¹³	Source of data
IMPACT	Impact (overall objective)	To mitigate the impact of the COVID-19 crisis in the Republic of Moldova	<i>Level of poverty.</i>	UNDP Human Development Report.
			<i>Percentage of economic contraction / growth in 2020 and 2021.</i>	IMF statistics.
OUTCOME(S)	Outcome 1 (specific objective)	Health system provided with equipment and supplies to deal with health problems resulting from the COVID-19 crisis.	<i>Number of COVID-19 patients treated by the National Health System</i>	Ministry of Health, Labour and Social protection (MHLSP) Report, World Health Organization (WHO), Civil Society Organization (CSOs).
	Outcome 2 (specific objective)	Micro-, Small and Medium sized Enterprises (MSMEs) provided with support to manage economic recovery.	<i>MSMEs resumption rate</i>	Ministry of Economy and Infrastructure (MEI) and National Bank of Moldova (NBM) Reports, external reports, Business associations, interviews with supported SMEs
INDUCED OUTPUT(S)	Induced Output(s) related to Outcome 1	1.1. Personal Protective Equipment (PPE) purchased for the healthcare system.	<i>Number and quality of PPE purchased for the healthcare system.</i>	MoHLSP Reports, WHO, CSOs.
		1.2. Increased capacity to make diagnosis.	<i>Number of people tested for coronavirus identification</i>	MoHLSP Reports, WHO, CSOs.
		1.3. Increased treatment capacity.	<i>Number of designated hospitals with fully equipped and</i>	MoHLSP Reports, WHO, CSOs.

Results chain		Indicator ¹³	Source of data
		<i>functional intensive care units (ICUs).</i>	
Induced Output(s) related to Outcome 2	2.1 MSMEs and Individual entrepreneurs in the agriculture sector received financial support to cope with the COVID-19 economic crisis	<i>Number of supported MSMEs and individual entrepreneurs</i>	MEI and NBM/MoF Reports, external reports, Business associations, National statistics
	2.2 Digital transformation of SMEs supported	<i>Number of SMEs which went digital thanks to the support measures in place</i>	
	2.3 VAT refund mechanism comes effectively into force for businesses.	<i>Number of businesses receiving VAT refund and amount of refunded VAT</i>	
	2.4 Number of business that had to close is minimized	<i>Number of closed businesses</i>	
	2.5 Institutional framework for MSMEs development is strengthened	<i>New MSMEs development programme is developed and adopted by the MEI</i>	

For that purpose, the budget support contract will assist the Republic of Moldova through financial transfers, policy dialogue, performance and capacity development.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this Action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for the budget support component is EUR 15 000 000. This amount stems from the most recent forecasts of the fiscal impact of the crisis, which could result in shortfall of revenue and additional spending estimated at around EUR 1 billion.

5.3.2 Criteria for disbursement of budget support

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the COVID-19 Strategic Preparedness and Response Program and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

The adoption of fully-fledged and adequately resourced National Health Strategy 2030 with operational, monitoring, evaluation and review framework will be an important element contributing to satisfactory assessment of progress on the policy conditions.

The overall adherence to fundamental values during the implementation of this budget support contract will be consistently monitored and any appropriate measures will be taken in line with the guidance provided in chapter 3. "Fundamental values and budget support" in the Budget Support guidelines (2017). Headings 3.4 "Structures and mechanisms" and 3.5 "Gradualism and proportionality of the responses to be considered by the EU" will be used to inform the Financial Assistance Steering Committee for decision.

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The budget support component consists of a fixed tranche to be disbursed indicatively upon the achievement of the required results by the end of the first quarter of 2021 (EUR 15 000 000 fixed tranche), when conditions allow.

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Moldovan Lei will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
Budget support	15 000 000	N/A
Evaluation-Audit/expenditure verification	N/A (To be covered by Global Allocation)	N/A
Total	15 000 000	N/A

5.5 Organisational set-up and responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5.6 Performance and Results monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list (for budget support). While submitting reports to the EU, the implementing partner has to ensure credibility of the information provided which will be used for disbursement of the funds.

The Commission may undertake additional monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.7 Evaluation

An ex-post evaluation(s) may be carried out for this action or its components via independent consultants contracted by the Commission.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 60 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.8 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. It is foreseen that audit services may be contracted under a framework contract.

5.9 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 at the start of implementation. It should also reflect the Team Europe approach as overall concept of the EU's support to the partners in response to COVID-19 crisis.

For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.