



**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP
INSTRUMENT**

REPUBLIC OF MOLDOVA

**COUNTRY STRATEGY PAPER
2007-2013**

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Executive Summary

This Country Strategy Paper (CSP) for the Republic of Moldova¹ covers the period 2007-2013. Assistance to Moldova over that period will principally be provided under the new European Neighbourhood and Partnership Instrument (ENPI) which is being established to provide assistance for the development of an area of prosperity and good neighbourliness involving the European Union and the partner countries covered by the European Neighbourhood Policy (ENP).²

The principal objective of EU-Moldova cooperation at this stage is to develop an increasingly close relationship between the EU and Moldova, going beyond past levels of cooperation, to a deepening of political cooperation including in the area of foreign and security policy and in the resolution of the conflict in Transnistria, and to promote economic growth and poverty reduction on the basis of the EU-Moldova Action Plan and the Economic Growth and Poverty Reduction Strategy Paper (EG-PRSP).

EC assistance over the period covered by this strategy will help to achieve the above policy objectives. Under the National Indicative Programme (NIP) 2007-2010 this translates into priority support for three strategic categories:

- i) democratic development and good governance;
- ii) regulatory reform and administrative capacity building;
- iii) poverty reduction and economic growth.

This new Strategy Paper for Moldova has been developed in close consultation with the Moldovan authorities and fully reflects national priorities. Member States, other donors and civil society organisations have been consulted during the drafting process.

1. The Objectives of EU/EC Co-operation with Moldova

1.1. Overall external policy goals of the EU

As a global player, the EU promotes its norms, values and interests through the use of various instruments, ranging from the Common Foreign and Security Policy (CFSP), assistance and trade to the external dimension of the EU's internal policies.

In particular, the EU strives to promote prosperity, solidarity, security and sustainable development worldwide.

Of utmost importance for the EU is the definition of the right "policy mix". That means that in the light of the EU's strategic external relations objectives policy coherence needs to be ensured between all available instruments in dealing with Moldova.

¹ Thereafter, the *Republic of Moldova* will be referred to as *Moldova*.

² Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006.

1.2. Strategic objectives of EU/EC cooperation with Moldova

A combination of country-specific, regional and global strategic objectives shape the EU/EC's approach to cooperation with Moldova:

A mutually beneficial partnership promoting Moldova's reform agenda

The EU and Moldova commit themselves in the Partnership and Cooperation Agreement (PCA), ratified on 1 July 1998, to a partnership which provides for close political and mutually beneficial trade and investment relations as well as economic, social, financial, civil scientific technological and cultural cooperation. The partnership is intended in particular to promote Moldova's transition to a full-fledged democracy and market economy.

Implementing the European Neighbourhood Policy (ENP) and the EU-Moldova ENP Action Plan

The objective of the ENP, launched in the context of the 2004 enlargement round is to share the EU's stability, security and prosperity with neighbouring countries including Moldova, in a way that is distinct from EU membership. The ENP is designed to prevent the emergence of new dividing lines in Europe by offering neighbouring countries closer political, security, economic and cultural cooperation. It also addresses one of the European Union's strategic objectives set out in the European Security Strategy of December 2003, namely bolstering security in the EU neighbourhood. ENP partners are expected to benefit from closer cooperation with the EU, the chance to participate in EU programmes and a stake in the EU's internal market, which will strongly support their own political and economic reforms.

The EU and Moldova have agreed to specific objectives in an Action Plan endorsed by the EU-Moldova Cooperation Council on 22 February 2005. The Commission put forward a mid-term assessment of the implementation of the Action Plan in November 2006.

Security Challenges

In the European Security Strategy of 12 December 2003 the EU acknowledged that as a union of 25 States with over 450 million people producing a quarter of the world's Gross Domestic Product (GDP), it is inevitably a global player.

One of the key policy implications of the European Security Strategy is the need for the EU to "promote a ring of well-governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations". In addition to this, the Strategy clearly acknowledges the importance of promoting an international order based on effective multilateralism.

In this context the EU attaches great importance to the resolution of the Transnistria conflict and is actively involved in ongoing efforts to achieve a settlement, amongst other things through an EU Border Assistance Mission on the Moldovan-Ukrainian border, including the Transnistrian section.

Development Policy Objectives

EU development policy is driven by the overriding aim of reducing poverty and the complementary aims of promoting good governance and respect for human rights.³ At the same time it emphasises the need for a differentiated approach depending on contexts and needs.

With a GNI per capita (Atlas method, 2005) of US\$ 880, Moldova is classified as a low income country in the OECD's Development Assistance Committee (DAC) list of aid recipients. Full account must therefore be taken of development policy objectives and in particular the Millennium Development Goals (MDGs) in defining cooperation objectives with Moldova. In this context it is important to note that an Economic Growth and Poverty Reduction Strategy Paper (EG-PRSP) for the period 2004-2006 was adopted by the government in May 2004 and approved by the Parliament in November 2004. The first EG-PRSP Annual Evaluation Report was published by the government in April 2006.

2. An outline of the Moldovan policy agenda

2.1. General aspects

In 2003 President Voronin set his country the goal of further strengthening its relationship with the EU. Moldova subsequently produced a "concept paper" for promoting integration into the EU. Divisions responsible for coordinating the European integration process have been created in all Ministries, with the Department for European Integration within the Ministry of Foreign Affairs and European Integration playing a coordinating role. Following the March 2005 parliamentary elections a new, pro-European government was formed.

On this basis the policy objectives of Moldova can be summarised as follows:

2.2. Internal Policy

Consolidating democracy, the protection of human rights and fundamental freedoms: Moldova is clearly committed to improving the stability and effectiveness of institutions guaranteeing democracy, the protection of human rights and fundamental freedoms.

Consolidating the rule of law: The government is committed to promoting judicial and legal reform in order to ensure the independence of the judiciary and strengthen its administrative capacity and to ensure impartial and effective prosecution. Important steps have already been taken in this regard, in particular for legislative reform.

Effective fight against corruption: The government has declared its intention to increase the fight against corruption and has prepared an anti-corruption plan in the framework of GRECO (CoE Group of States against Corruption).

³ The key principles of the EU's development policy are set out in 'The European Consensus On Development' (see: http://europa.eu.int/comm/development/body/development_policy_statement/index_en.htm)

Public sector reform: The government has embarked on an ambitious programme of comprehensive public sector reform, including the administrative and regulatory reforms necessary to improve public governance. In this context it has been announced that the number of civil servants is to be significantly reduced.

Improving the investment climate: Actively addressing the broad range of issues affecting the investment climate with a view to strengthening investors' confidence is a key component of the government's approach to further economic growth. A "guillotine reform" has been launched to limit red tape. A list of legislative and administrative acts that need to be eliminated or amended has already been drafted.

Improving welfare, increasing living standards and enhancing the provision of social services: Within the EG-PRSP the government has committed itself to implementing anti-poverty measures as well as improving social services and access to health protection in particular at regional and local level.

Security of energy supply: This is an issue of major concern to the Moldovan authorities and they are looking into ways of guaranteeing the security of energy supplies. Moldova is an observer in the South East Europe Energy Community Treaty which could provide a useful framework for energy market reform in view of enhancing its security of energy supplies.

2.3. The Transnistria issue

Finding a solution to the Transnistrian conflict, in full respect of Moldova's territorial integrity, is a key priority of the Moldovan government.

2.4. External Policy

Orientation towards the European Union and greater integration into co-operation arrangements in South-East Europe: Moldova has put orientation towards the European Union firmly at the centre of its political agenda. In this context Moldova is also systematically pursuing a policy of greater integration into cooperation arrangements in South-East Europe. Moldova is a member of the Stability Pact (SP) for South Eastern Europe, the Central European Initiative (CEI), the South-East European Cooperation Initiative (SECI) and the Black Sea Economic Cooperation Pact (BSEC). Moldova has become a member in the South-East European Cooperation Process (SEEC) in 2006. Moldova also signed the new CEFTA (Central European Free Trade Area) Agreement in December 2006.

Other regional initiatives: Moldova is committed to greater involvement in cooperation within the Black Sea region, including enhanced cooperation in the framework of GUAM⁴.

Promoting trade: Moldova became a member of the WTO in July 2001. Trade policy issues are at the heart of the government's economic strategy. Free Trade Agreements (FTAs) with former CIS countries and with countries of South-East European countries are a priority. Since 1 January 2006, Moldova has benefited from the General System of Preferences Plus (GSP+) in trade relations with the EU. The government has taken significant steps towards improving the system of certification and

⁴ GUAM is a Regional Organisation comprising Georgia, Ukraine, Azerbaijan and Moldova.

control of rules of origin as a basis for Autonomous Trade Preferences possibly being granted by the EU, which is mentioned as a priority in the EU-Moldova Action Plan.

3. The political, economic, social and environmental situation

3.1. Analysis of the political situation

The internal situation

Moldova declared its independence from the former Soviet Union in August 1991. In January 1992 the Republic of Moldova became a member state of the CSCE (OSCE after 1995) and was admitted to the United Nations in March of that year. In the first years after independence, the political situation in Moldova was characterised by volatile coalition majorities and short-lived governments. This changed after the parliamentary elections of March 2001 in which the Communist Party won a landslide victory and a constitutional majority of 71 parliamentary seats (out of 101). A new president (V. Voronin) was elected in an internationally recognised democratic process. President Voronin was re-elected in April 2005. The 2005 parliamentary elections were recognised as generally being in compliance with Council of Europe (CoE) and OSCE standards. Concerns, however, were raised by the joint CoE and OSCE election observation mission in particular over the issue of the freedom of media and administrative pressures on opposition candidates.

Both the Constitution and the Law on the Court System stipulate that the judicial system must be independent of the executive and the legislative powers. The Moldovan government recognises, however, that the reform of the judiciary remains a priority; most importantly increasing the independence of judges and prosecutors, ensuring access to justice and enforcing court decisions.

After independence Moldova faced the dual challenge of building its own public administration while transforming the local branches of the Soviet administration into structures adapted to the requirements of a democratic society and a market economy. The Moldovan government acknowledges that this task has still been only partially fulfilled. Institutional capacity in the public sector is still weak and government institutions often do not perform efficiently due to inconsistencies in their functional and institutional frameworks. The presence of corruption among public servants is a major concern. In this connection selection, promotion and remuneration procedures need to be improved. Although the government has embarked on an ambitious programme of comprehensive public sector reform, much remains to be done and donor support will be essential to help steer the reform process.

Moldova has ratified most of the international human rights instruments and is committed to reinforcing democratic institutions to guarantee the protection of human rights and fundamental freedoms. Low administrative capacity and awareness, however, particularly within law enforcement bodies are significant obstacles in this connection.

Overall, Moldovan legislation provides a relatively favourable environment for the development of civil society and media freedom. However, a number of recent developments, including in the legislative field, are cause for concern.

The Transnistria issue

In 1992 a short civil war took place in the region of Transnistria on the eastern Moldovan border. Transnistria succeeded in establishing *de facto* independence from Moldova but has not been internationally recognised as an independent country.

After the ceasefire, in 1992, a security zone was established guarded by peace-keeping forces consisting mostly of Russian troops and troops from the two sides. A small number of Ukrainian military observers are also present. Additional Russian troops, ammunition and armoured vehicles are also stationed in Transnistria.

Since 1995, Moldova and Transnistria, assisted by three international mediators, the OSCE, Russia and the Ukraine, have been discussing a possible settlement within the so-called “five-sided mediation process”. Since October 2005, the EU and the US have been involved in this process as observers, the new format being known as “5+2”.

The new Ukrainian leadership has declared its intention to renew its commitment to solving the crisis. President Yushchenko proposed a blueprint for a negotiated settlement at the 22 April 2005 GUAM Summit in Chisinau. These - subsequently revised - proposals centre around the idea of democratic elections in Transnistria.

On 2 June 2005, President Yushchenko of the Ukraine and President Voronin of Moldova sent a joint letter to European Commission President Barroso and High Representative/ Secretary General Solana requesting *inter alia* international monitoring of the Transnistrian section of their common border. The EU agreed to this request. An EU Border Assistance Mission (EU BAM) has been in place since 1 December 2005.

The external situation

The Moldovan government is firmly committed to promoting integration with the European Union and regards this as its main foreign policy objective.

Moldova, however, still depends strongly on Russia and other CIS countries both for energy imports and export markets. Moldova is making efforts to diversify its sources of energy supplies and the direction of its exports. These efforts are complicated by the fact that an important electricity generating plant is located in the separatist region of Transnistria.

After a difficult initial phase, the Communist-led government is continuing the traditional pattern of strong neighbourly relations with Romania.

Perspectives

The agreement on the joint EU-Moldova Action Plan concluded in the context of the European Neighbourhood Policy has created a unique opportunity for Moldova to transform itself into a modern democratic country, and progress with the process of economic reform. The Action Plan has provided a concrete tool for furthering Moldova’s European aspirations. As Moldova makes genuine progress in carrying out internal reforms and adopting European standards, relations between the EU and Moldova will become deeper and stronger.

The settlement process for the conflict in Transnistria has entered a new phase with greater EU and US involvement.

3.2. Analysis of the economic situation and trade structure

Moldova's transition to a market economy system was marked by a particularly prolonged and deep recession. Russia and the Ukraine, economies with which Moldova has strong trade ties, experienced similar problems. Although growth finally restarted in 2000, the strength of the recovery from 2000 onwards was weaker than in other neighbouring countries. This was largely due to Moldova's high vulnerability to external shocks (given its trade structure) and adverse weather conditions. As a result, real GDP in 2005 was still less than half of the 1989 level. This is one of the worst performances amongst the transition countries listed by EBRD.

Economic growth has also been affected by the fact that most Moldovan industry, including electricity generating plants, is located in secessionist Transnistria. As a result of these trends, the country's real GDP *per capita* is the lowest in Europe.

Although the manufacturing sector, specialised in textiles and leather products, has been recovering, Moldova's economy is characterised by the enduring, large agricultural sector which accounted for almost one fifth of GDP in 2004. Agricultural and food-processing products accounted for 54% of all exports in 2004.

Substantial emigration (close to 400 000 Moldovans were estimated to be working abroad in November 2004) has resulted in a strong and growing influx of worker's remittances – four times and a half since 2001. According to official NBM statistics, the overall level in 2005 is estimated at US\$ 900 million which represents close to 30% of Moldovan GDP. Remittances are thus a key feature of economic development and social life and have contributed directly to reducing poverty. Remittances are also a major revenue item in Moldova's current account; their growth compensates – and makes possible – huge trade deficits run by Moldova. Moldova's imports are now more than double its exports and the trade deficit was close to 40% of GDP in 2005. Understandably, economic growth and public finances are at the same time highly vulnerable due to their heavy reliance on remittances to cut trade deficits. Moldova's external vulnerability has been further highlighted by the developments since the beginning of 2006: first, by the doubling of the price of the natural gas imports from Russia and, secondly, by the Russian ban on imports of Moldovan wine effective since the end of March 2006.

Moldova's fiscal situation remains fragile despite a recent improvement. The general government budget was in surplus in 2003-2005, but this was achieved partly through build up of arrears on external debt (since 2002). Arrears on the Paris Club debt – for a long time a major obstacle for the normalisation of Moldova's relations with the international donor community – are no longer a problem. In May 2006, the Moldovan government reached an agreement with Paris club creditors on the restructuring of the country's debt arrears and current payments falling due in 2006-2008 – the time period covered by Moldova's financing arrangement with the IMF under the Fund's concessional Poverty Reduction and Growth Facility (approved also in May 2006).

Already before the Paris Club debt consolidation agreement, Moldova continued the gradual reduction of its external indebtedness. While in 2004 it had concluded a number of bilateral debt reduction deals (with non-Paris club official and private creditors), in 2005 the reduction of the debt stock was the result of regular principal repayments, not matched by new disbursements. At the end of 2005, Moldova's public and publicly guaranteed external debt was below US\$ 800 million, some 26% of

GDP (down from about 60% in 2002). The non-publicly guaranteed external debt is substantially higher – about US\$ 1.2 billion. Total debt servicing still represents some 20% of exports of goods and services.

In the medium term, a clear improvement in Moldova's business climate is essential to put the country on a sustainable growth path. Moldova currently scores badly in terms of corruption (88th in the world according to Transparency's International Corruption Perceptions index, 2005)⁵ and there are still substantial formal and informal administrative obstacles to business. The government has also shown a growing penchant for interference in the economy, which has led to regular complaints from Moldovan exporters and occasional complaints from foreign investors.

The privatisation programme is making slow progress and efforts in the area of deregulation, greater targeting of social assistance and SME policy have also delivered few concrete results to date.

Moldova's economic map is marked by major regional disparities. Heavy industry is concentrated in the separatist region of Transnistria. In the rest of Moldova, income levels are highest in the region around the capital Chisinau.

The EU is Moldova's first import and second export market, accounting for some 33% of its total trade. Russia and the Ukraine are its second and third trading partners, representing 22.4% and 16.7% respectively. The EU's imports from Moldova increased by 28.7% in 2004 compared to 2003. EU exports to Moldova increased by 13.6%. EU imports are mainly agricultural products, textiles and clothing.

3.3. Analysis of social developments

Moldova is ranked 115th in the 2005 Human Development Report, with a Human Development Index (HDI) value of 0.671. Thus, Moldova is one of the lowest ranking countries, in terms of HDI, covered by the European Neighbourhood Policy.

With a per capita income of US\$ 880 (GNI Atlas method, 2005) Moldova is the poorest country in Europe and the only one currently classified as a low-income country by the World Bank. While poverty levels fell sharply after 1999, they now appear to have stalled. Between 1999 and 2005, the national poverty rate fell from 73% to 28.5%, marking the largest decline in poverty in Europe and Central Asia over this period. However, starting in 2004, poverty reduction appears to have stalled despite continuous economic growth, and even to have increased in rural areas.

The country suffers from a high incidence of poverty, particularly in rural areas, and has become a hub for traffickers in human beings. Due to the difficult economic situation the incentive to seek employment abroad remains strong, with a considerable number of Moldovan citizens falling victim to various forms of trafficking. Sex trafficking, particularly towards Western Europe, continues to involve a significant number of women and children.

⁵ It is interesting to note however that other countries of the region including Ukraine, Belarus and Russia score even worse.

Moldova's population shrank from 4.36 million in 1991 to 3.97 million in 2004 (close to 400 000 of which, however, were estimated to work abroad in November 2004)⁶. This reflects a dramatic demographic situation due to an increase in mortality rates, in particular among males, a sharp decline in the birth rate and a significant net migration outflow. The increase in smoke- and alcohol-related diseases has been an important factor in the rise in male mortality, together with the resurgence of communicable diseases such as tuberculosis and diphtheria. According to official statistics, the levels of HIV/AIDS are low. However, there are reasons to believe that the disease is more widespread than reported. The rapidly growing mortality rates and the spread of chronic diseases result in low life expectancy. In 2003, life expectancy was 67.7 years (63.9 for men and 71.3 for women), one of the lowest in Europe.

Employment rates declined steeply in the last two years, dropping to 49.7% in 2004 (youth employment rates were down to only 18% in 2004). The unemployment rate amounted to 10% in 2004 (labour force survey). The main problem in Moldova is that well-paid jobs are not created in a sufficient number to lift the working population out of poverty. 75% of the people living in poverty in 2002 had work.

While Moldova scores well on literacy and enrolment indicators with an adult literacy rate of 96.2% (youth literacy rate: 98.7%) and a net primary education enrolment ratio of 79%, the country's education sector suffers from increasingly unequal access, eroding quality and low efficiency in the use of resources.

3.4. Analysis of the environmental situation⁷

Moldova faces significant challenges in order to promote environmental protection. Key areas include air quality, water quality, waste management, nature protection and climate change including multilateral environmental agreements. Furthermore the institutional and administrative capacity requires strengthening, in particular as regards strategic planning, implementation and enforcement. Civil society also needs strengthening in order to be a valuable partner for the government in the development of environmental protection.

4. An overview of past and ongoing EC assistance

4.1. EC assistance to Moldova 1991-2006

The Community has provided more than € 300 million of assistance to Moldova since 1991. This includes assistance under the Tacis programme (including its national, regional and cross-border components) as well as support under thematic budget lines such as the Food Security Programme (FSP) and the European Initiative for Democracy and Human Rights (EIDHR), macro-financial assistance and humanitarian assistance provided by ECHO.⁸

⁶ About 200 000 "contingent" migrants were also in Moldova in November 2004 but had either worked abroad at one time in 2003 or 2004 or had specific plans to work abroad in the near future.

⁷ A more detailed description of the environmental situation in Moldova can be found in the Country Environment Profile annexed to this CSP (Annex 3).

⁸ A detailed breakdown of EC assistance to Moldova over the period 1991-2006 can be found in Annex 6.

Under the **national Tacis programme** assistance since 2001 has focussed on the three priority areas of: i) support for institutional, legal and administrative reform, ii) support for the private sector and assistance for economic development and iii) support for addressing the social consequences of transition.

Regional and cross-border co-operation focussed on issues relating to infrastructural and environmental improvements. Recent regional programmes have also included substantial interventions to improve border management, strengthen the asylum system and fight against trafficking in human beings and drugs. Moldova played an active part in the EU-Black Sea-Caspian Basin Ministerial Conferences on Transport and Energy in November 2004 in Baku and in their follow-up Working Groups.

Moldova is currently eligible under two **Neighbourhood Programmes (NPs)**: a bilateral programme with Romania and the CADSES programme (Central European Adriatic Danubian South-Eastern European Space). For CADSES and the bilateral programme with Romania a first Call for Proposals has been launched and projects selected.

The **Food Security Programme (FSP)** is designed to address poverty and to improve food security, including measures in the agriculture sector, land and social reform, and public finance management. The FSP is a budgetary support programme conditional upon the achievement of pre-defined benchmarks. Significant progress towards compliance with the conditions agreed in the 2002 FSP allowed the disbursement of €9.2 million in 2005. A first tranche of €1.2 million of the 2004 FSP was transferred to Moldova in autumn 2005 followed by a second disbursement of € 7.6 million in December 2005. Another FSP allocation of €10 million, including €9.2 million in budgetary support, has been made available in 2006. A first disbursement of €1.2 million has been made in October 2006.

A grant of €15 million **macro-financial assistance** has been allocated to Moldova in 2002, intended to complement IMF and World Bank programmes. However, it could not be disbursed in the absence of an IMF programme. The validity of the decision on the grant has now expired. A new grant of macro-financial assistance for an indicative amount of € 45 million is currently (October 2006) under preparation following the adoption of the new IMF programme.

Moldova has been allocated support under **EIDHR** in the context of regional projects in the years 2002-2004. EIDHR supports civil society initiatives that aim to promote democracy and human rights.

Moldova is also eligible under the AENEAS programme (2004-2006 budgetary years) for projects in the field of migration and asylum.

4.2. Key lessons learnt for the new programming cycle

The Commission has recently completed an evaluation of the Tacis programme as a whole⁹. The last evaluation of the Moldova country programme dates back to 2000.

The Tacis evaluation suggests that, overall Tacis interventions were highly relevant and responded to the needs identified.¹⁰ However, particularly in the early years, the programme was mainly governed by

⁹ The full report of the Tacis evaluation is available at:

http://ec.europa.eu/comm/europeaid/evaluation/document_index/2006/728_docs.htm

¹⁰ The 2000 Moldova country evaluation came to the same conclusion.

a “top-down” approach. This was partly a consequence of the need for institution-building in the transition countries and partly due to an insufficient sense of ownership on the part of the national authorities. National Indicative Programmes (NIPs) also tended to be too detailed which restricted adaptability at project identification level to respond flexibly to evolving needs.

In this new programming exercise, the EC will focus on defining strategic priorities and objectives rather than specific activities or delivery mechanisms. National authorities are being involved in this process from the very beginning and have shown a greater level of commitment and ownership as a result of the clearer political framework provided by the ENP and the EU-Moldova Action Plan.

The Tacis evaluation noted that the programme is characterised by a large number of “**stand alone**” **technical assistance projects**, particularly in the area of institutional and administrative reform. These actions often achieve good results at project level¹¹ but have **less impact at sector and national policy level** partly due to a lack of continuity and coherent long-term sector planning. On the contrary, the Food Security Programme (FSP), which provides budgetary support upon achievement of pre-defined benchmarks, is said by most stakeholders to have had significant impact at policy and sectoral level due to higher national ownership leading to stronger commitment to implement reform proposals and policies.

In the specific case of Moldova, the evaluators also observe that there are clear risks linked to **limited administrative and absorption capacity**. These call for enhanced donor coordination mechanisms in particular with a view to furthering action under the EU-Moldova Action Plan and the EG-PRSP.

A Monitoring Review of the Tacis Programme in Moldova 2003-2005 provides further country-specific insights regarding past project performance which needs to be taken into account for future programme design. The Monitors confirm that a majority of Tacis projects was “perfectly in line with national priorities”. However, not always were the projects “affiliated to concrete initiatives funded by the government”, which had a negative impact on project sustainability. Moreover, there were sometimes problems of commitment of partner institutions.

As far as projects targeting improvements of the national legislative framework were concerned, the Monitors note that a narrow focus on legislation review and law drafting does not bring the necessary results as long as there is not equal attention given to strengthening law enforcement mechanisms.

Future programme design under the ENPI will move away from mainly focusing on technical assistance projects. Instead, and building on the positive experiences with the Food Security Programme in Moldova, resources will be increasingly channelled through the state budget linked to fulfilment of pre-defined conditionalities and accompanied by targeted technical assistance. This will increase ownership and reduce transaction costs for the government.

4.3. Coordination and complementarity with other donors

The principal donors in Moldova, in addition to the EC, are the World Bank, EBRD and UNDP/UNICEF, the USA and Canada, and, of the EU countries, Sweden, the United Kingdom, the Netherlands, Germany, the Czech Republic, Denmark, Poland, Latvia, Lithuania and Romania. Switzerland and Norway are providing assistance as well. The IMF has approved a new PRGF (Poverty

¹¹ This is confirmed by a detailed analysis of project monitoring reports for Moldova over the period 2003-2005 which shows an overall rating out of 4 of 2.6 which is above the mean of 2.5.

Reduction and Growth Facility) programme in May 2006. The EIB is expected to start lending operations in Moldova in the near future.

Donors' activities focus in particular on social and economic development and issues related to good governance, in particular public administration reform and public finance management. The World Bank is administering a multi-donor Trust Fund on civil service reform.¹²

The EC is currently active in all the abovementioned areas with a specific emphasis on institutional and economic reform including regulatory issues. Under this new strategy, EC assistance will continue to focus on governance issues and the regulatory aspects of economic reform. The EC will also substantially increase its assistance to target poverty reduction and economic growth in particular at regional and local community level, including health, education and municipal infrastructure.

Government-led donor coordination is working reasonably well but effective inter-ministerial coordination and information sharing need to be further strengthened over the period covered by this strategy. Donor coordination and harmonisation was carried forward through a Development Partnership Framework signed between the government and key donors including the EC in May 2006. This Partnership Framework (entitled "Co-ordination and Harmonisation of Government and Donor Practices for Aid Effectiveness in the Republic of Moldova") commits its parties to work towards harmonisation of indicators, joint reviews and synchronisation with government budget cycles with a view to reducing transaction costs of assistance to the government. The EC, jointly with the Moldovan government, the World Bank and the IMF, organised and hosted a Donors' Consultative Group meeting (CG) in Brussels on 12 December 2006 which was considered by all participating parties as a success.

When preparing this strategy the EC consulted other donors at an early stage to ensure cohesion and complementarity. Future donor coordination on programme identification and implementation will be facilitated by the fact that an EC Delegation was opened in Chisinau in October 2005. Such coordination will be particularly important as the EC – in the context of the commitments made in Paris in March 2005 on Aid Effectiveness and Harmonisation and the Partnership Framework mentioned above – will increasingly be providing assistance on the basis of sector programmes, including pool-funding and budgetary support as appropriate.

4.4. Consistency of EC cooperation policy with other core policies of the EU ("policy mix")

Relations with Moldova are affected by a number of other Community policies which is why the choice of the right "policy mix" is so important. This concerns in particular the areas of Common Foreign and Security Policy (CFSP), energy, development policy and Justice, Liberty and Security (JLS) including migration, border management and the fight against organised crime including trafficking in human beings and drugs. See Annex 5 for a detailed discussion of "policy mix" considerations.

¹² See Annex 4 for a more detailed description of donors' activities.

5. The EC Response Strategy

5.1. Principal objective

The principal objective of EU-Moldova cooperation at this stage is to develop an increasingly close relationship between the EU and Moldova, going beyond past levels of cooperation, to deeper political cooperation and gradual economic integration including in the energy sector, and to promote economic growth and poverty reduction.

EC assistance over the period covered by this strategy will therefore aim to support these policy objectives which find their joint and detailed expression in the Partnership and Cooperation Agreement (PCA) of July 1998 and the EU-Moldova Action Plan of February 2005. The strategy is also fully aligned with the Economic Growth and Poverty Reduction Strategy Paper which was adopted by the government in May 2004.

5.2. EC assistance priorities

EC assistance priorities are presented in the strategy paper under the seven headings in the EU-Moldova Action Plan.

These assistance priorities apply to all assistance instruments and programmes which will or might be available for Moldova.

Political dialogue and reform

EC assistance in this area will focus on reinforcing democracy and good governance, the rule of law, human rights and fundamental freedoms. Other important objectives are to foster the development of civil society, including in the social and economical sectors, and support independent media.

In the field of enhanced cooperation on foreign and security policy, particular attention will be given to issues related to weapons of mass destruction, conflict prevention and crisis management with a view in particular to contributing to solving the Transnistria conflict, as well as in dealing with the consequences of the illicit manufacture, transfer and circulation of small arms, light weapons, ammunition and their excessive accumulation and uncontrolled spread.

Cooperation for the settlement of the Transnistria conflict

The EC will continue its current strong engagement in support of a settlement of the Transnistria conflict, in full respect of Moldova's territorial integrity.

This involves, amongst other activities, continuing cooperation with Moldova on customs- and border-related issues with a view to ensuring Moldova's full control of its entire border and customs territory,

and supporting civil society and the promotion of democratic values and respect for human rights throughout Moldova.

Depending on developments regarding the settlement of the Transnistria conflict, the EC will provide further specific assistance related to all aspects of conflict settlement and settlement consolidation including the elimination of the excessive accumulation of conventional weapons such as SALW (small arms and light weapons) and ERW (explosive remnants of war).

Economic and social reform and development

EC assistance will address the key issues of poverty reduction, economic growth and the reduction of social inequality. This should include comprehensive action at regional and local level, targeting *inter alia* the extension and modernisation of local/regional infrastructure, enhanced provision of access to and quality of social services (including education and health care). Issues linked to local and rural economic development and improving the capacity of local public authorities should also have high priority.

Assistance to further the establishment of a fully functioning market economy will also be offered with a view to reducing poverty and regional imbalances. This entails strengthening public finance management as well as improving the investment climate by ensuring transparency, predictability and the simplification of procedures, and promoting the development of the private sector. The promotion and mainstreaming of sustainable development into all relevant sector policies, including agriculture, is a further important issue to be addressed.

Trade-related issues, market and regulatory reform¹³

EC assistance will be offered to support the process of market and regulatory reform so as to enable Moldova to comply with its obligations under the Partnership and Co-operation Agreement (PCA) and as a member of the WTO.

This will cover a broad range of areas including *inter alia* customs legislation and procedures compatible with international and EU standards in view of trade facilitation, including security of the international trade supply chain (World Customs Organisation's Framework of Standards), standards and conformity assessment, sanitary and phytosanitary issues (SPS), establishment and company law, financial services and markets, strengthening of the overall administrative capacity of the tax administration and reform of the tax system in compliance with general international principles in order to improve revenue collection, competition policy, intellectual and industrial property rights, public procurement and statistics.

EC assistance will also address specific trade and customs issues arising from the situation in Transnistria and from the process of improving certification and control of rules of origin in Moldova with a view to the EU possibly granting Autonomous Trade Preferences to Moldova.

¹³ As far as trade-related Technical Assistance is concerned, the priorities identified in this section are in line with the World Bank Diagnostic Study of December 2004 focussing on an assessment of the challenges for the Moldovan economy and trade system, as well as spelling out priorities for reform and external assistance.

Co-operation in Justice and Home Affairs

In line with the priorities of the EU-Moldova Action Plan, assistance in this area will focus on migration issues (including readmission, visa and asylum), border management, fighting terrorism and organised crime, including trafficking in human beings and drugs and the illicit spread of small arms and light weapons, corruption, money laundering and police and judicial reform and cooperation. EC assistance should promote institutional reform and capacity building such as support for the reform of the judicial system, measures to bring the border guards and the asylum system fully into line with European standards, cooperation on border monitoring, support for fighting organised crime and effective management of migratory flows.

Transport, energy, telecommunications, environment, research, development and innovation

Reinforcing administrative capacity to elaborate and implement sectoral strategies and policies which are closer to relevant EU policies and legislation is a general priority in the above areas. In the field of transport, this primarily involves improving efficiency as well as security and safety in the aviation sector.

In the energy sector, reinforced support will be provided in the area of improving energy efficiency and promoting new or renewable energies in particular at local level. Support will also be offered for appropriate measures aimed at convergence with the Community energy *acquis*, harmonising technical norms and standards with those of the EU and improving energy supplies, the transit of natural gas and promoting additional supply routes. When necessary, support will be provided for the implementation at national level of the recommendations of the working groups established during the Baku Energy Ministerial Conferences.

In the field of transport, support will be available for road rehabilitation at local and regional level, for priority measures in line with the recommendations of the High Level Group on the extension of the major trans-European transport axes towards neighbouring countries and regions, and for areas identified as priorities within the framework of the follow-up Working Groups to the Baku Ministerial Transport Conference of November 2004. Assistance should also be envisaged with respect to the aviation sector as Moldova is a candidate for the European Common Aviation Area.

With regard to the environment, particular attention will be given to support for the implementation of multilateral environmental agreements, in particular the UN Framework Convention on Climate Change and its Kyoto Protocol, and the UN-ECE conventions. Activities linked to water quality improvement, for example through the relevant component of the EU Water Initiative as well as other regional initiatives intended to protect the Danube and the Black Sea, are also envisaged. Further priority areas are industrial pollution, waste management and nature protection as well as the further development of civil society, information, monitoring and assessment.

As far as information society is concerned, support will be provided for putting in place a comprehensive regulatory framework, capacity building measures including for the Regulator, and for promoting the use of broadband infrastructure and online services by businesses, the administration and citizens.

Support for scientific and technological cooperation will be an important contribution to the sustainable and equitable economic development of Moldova and increasing its participation in research-related

activities such as the 7th Framework Programme, joint research projects, the Marie-Curie international mobility scheme for scientists and practical training at the seven institutes of the Joint Research Centre DG (DG JRC).

People-to-people contacts

Assistance for reforming and upgrading the education system with a view to convergence with EU standards and practices will be essential to strengthen democratic development, social stability and economic competitiveness. The objectives include fuller participation in programmes such as Tempus and Youth in Action, greater opportunities for Moldovan nationals to participate in exchange programmes such as Erasmus Mundus, and investigating the scope for cooperation in the framework of EU programmes in the field of culture.

5.3. Instruments and means

From 2007 on, EC assistance will be provided through a set of new instruments. While the European Neighbourhood and Partnership Instrument (ENPI), including not only its national but also its trans-national/regional, cross-border and thematic components, will be the principal new tool for providing assistance to Moldova, certain measures, in particular in the area of conflict prevention and crisis management and resolution, may also be supported under the future Stability Instrument.

The introduction of these new external assistance instruments will substantially increase flexibility. Technical assistance will no longer be the predominant channel for the Commission's external assistance programmes to Moldova.

As indicated in the ENP Action Plan, new cooperation tools like Twinning or TAIEX will play an essential role in achieving the Action Plan objectives. These instruments, together with other types of assistance (infrastructure and equipment funding, pool funding and budgetary support - in particular in the context of sector-wide approaches (SWAPs)) will be available and used whenever appropriate.

Interest rate subsidies and other ways of blending grants and loans can leverage investments by international financing institutions in the fields of environment, energy and transport. Whenever interest rate subsidies are considered, their relevance shall be assessed on a case-by-case basis and care should be taken to avoid significant market distortion. As regards environment, relevant sectors include water management, waste management and industrial pollution. For energy, possible areas include renewable energy resources and energy efficiency. Energy infrastructure/network investments should in principle be commercial operations given their financial return. In exceptional circumstances, though, where specific EU interests are involved (notably, energy security of supply) and it appears difficult to get a project started, targeted interest rate subsidies or other ways of combining grants and loans might also be considered for particular investment projects. Regarding transport, interest rate subsidies or other blending schemes would focus on catalysing funds for critical infrastructures of strategic importance, such as cross-border measures on the priority axes or the missing links necessary for their completion.

Twinning and TAIEX are being phased in already under the current Tacis programmes for Moldova, in particular to support the national authorities in preparing coherent sector strategies. As appropriate, Moldova will receive support for participation in Community programmes, agencies and networks,

insofar as these will be open to the country. The clearer framework provided by the ENP Action Plan will help ensure the consistency of EU assistance within specific sectors.

Cross-cutting issues such as human rights, gender and the environment will be mainstreamed into the design of all programmes and projects to the maximum extent possible. The preceding chapters of the CSP provide more detailed analytical information on these subjects.

ENPI national allocation for Moldova

Assistance provided under the national ENPI envelope for Moldova will focus on **three priority areas** selected on the basis of joint EU-Moldova policy objectives and the EC's comparative advantage as a donor based on lessons learnt from previous assistance programmes and complementarity with other donors¹⁴. Depending on developments regarding the settlement of the Transnistria issue, the EC will provide further specific assistance, within the overall resources available, related to all aspects of conflict settlement and settlement consolidation.

Priority Area 1: Support for Democratic Development and Good Governance

- Sub-priority 1: Public administration reform and public finance management
- Sub-priority 2: Rule of law and judicial reform
- Sub-priority 3: Human rights, civil society development and local government
- Sub-priority 4: Education, science and people-to-people contacts/exchanges

Priority Area 2: Support for Regulatory Reform and Administrative Capacity Building

- Sub-priority 1: Promoting mutual trade, improving the investment climate and strengthening social reform
- Sub-priority 2: Sector-specific regulatory aspects

Priority Area 3: Support for Poverty Reduction and Economic Growth

ENPI trans-national/regional programme¹⁵

The regional ENPI component will help to meet the objectives outlined in this strategy and the conclusions and recommendations of the working groups established in the framework of regional cooperation by addressing a limited number of priorities which are relevant to Moldova, but have a genuine regional dimension both in terms of joint implementation and regional impact.

At sectoral level, this relates in particular to **transport** (the development of major trans-national transport axes in line with the recommendations of the High Level Group and of the Transport Ministerial Conference in Baku of 14th November 2004 and its follow-up Working Groups), **energy** (covering, in the context of the follow-up to the Energy Ministerial Conference in Baku of 13th November 2004, all regional elements in this domain, in particular in relation to harmonising energy markets, safety and security of energy production, transportation and supplies, energy efficiency and renewables and facilitating investments in energy projects of common interest), and **environment**

¹⁴ For the first four years covered by this strategy further details will be elaborated in the National Indicative Programme 2007-2010.

¹⁵ Details of the ENPI Eastern Regional Programme are covered in separate programming documents.

(targeting *inter alia* the regional dimension of the EU Water Initiative, cooperation on regional seas and rivers including on biodiversity, regional aspects of sustainable management of forests and compliance with multi-lateral agreements, climate change and industrial pollution, information, monitoring and assessment and civil society cooperation in the environment field).

Beyond that, certain aspects of **border and migration management, the fight against trans-national organised crime, and customs** can be addressed more effectively at a regional level. This may include action in connection with customs and border management, fighting international crime, and migration and asylum management. There will also be scope for regional **SME cooperation and civil society cooperation**. Finally, assistance related to the destruction of anti-personnel landmines, explosive remnants of war and small arms and light weapons will be available.

ENPI-Wide Programme¹⁶

The ENPI-wide programme will include activities that for reasons of coherence, visibility and administrative efficiency are best implemented in the same way for all the neighbouring countries. Examples are TAIEX, TEMPUS and the new Scholarship Programme.

ENPI cross-border cooperation (ENPI CBC)¹⁷

As outlined in Commission Communications¹⁸ and the ENPI CBC Strategy 2007-2013, four overarching objectives will be addressed through these programmes: **i)** promoting economic and social development in the border areas, **ii)** working together to address common challenges, in fields such as environment, public health and preventing and fighting organised crime, **iii)** ensuring efficient and secure borders), and **iv)** promoting local, “people-to-people” type actions.

The specific objectives and issues to be addressed in each programme will be set from a local perspective, by the NPP partners themselves, reflecting their local priorities. The management of the programmes will likewise be a shared responsibility of the local programme partners.

The programmes will be able to support the full range of projects, from small-scale local initiatives with local administrations and NGOs/civil society organisations to large-scale projects involving a large number of partners at regional and sub-national level. The ENPI CBC programmes will also allow for investments in a cross-border context.

Moldova will be involved in two ENPI CBC programmes: a trilateral landborder programme with Ukraine and Romania, and the multilateral Black Sea Programme.

Instrument for the Promotion of Democracy and Human Rights (EIDHR II)

A separate instrument will continue to be available to promote democracy and human rights worldwide. Moldova may benefit from assistance under this instrument, mainly under broader Calls for

¹⁶ Details of the ENPI-wide Programme are covered in separate programming documents.

¹⁷ Details of the ENPI cross-border cooperation programme are covered in separate programming documents.

¹⁸ See in particular COM (2003) 393 final of 1 July 2003 (“Paving the way for a New Neighbourhood Instrument”).

Proposals involving several countries or regions. Details will be elaborated as part of a separate programming process. Full complementarity with the assistance provided under the national ENPI envelope will be ensured.

Thematic programmes¹⁹

A set of five thematic programmes will be available as from 2007²⁰. Out of these the programme on “Migration and Asylum” (ex-Aeneas) will be particularly relevant for Moldova. Other thematic programmes of potential relevance to Moldova are the one on “Human and Social Development – Investing in People” and on “Environment and sustainable management of natural resources including energy”. As all the above areas are however also addressed under the national, regional or CBC ENPI envelopes, additional thematic activities will be launched only if they provide clear added value.

The type of assistance currently provided under the Food Security Programme (FSP) will in the future be available under the national ENPI programme.

Stability Instrument

The main goal of the Stability Instrument is to provide an effective, timely, flexible and integrated response to crises, emerging crises or continued political instability.

In the case of Moldova this is particularly relevant with regard to the Transnistria conflict which continues to call Moldova’s territorial integrity into question. New efforts are currently being made to settle this conflict. Future support for such efforts may also be provided under the Stability Instrument.

Future EC contributions to the Science and Technology Centre (STCU) in Ukraine which is also covering Moldova are expected to be provided in the framework of the Stability Instrument.

¹⁹ Financial resources from ENPI allocated to each thematic programme will be programmed on the basis of a single strategy document. Full complementarity with actions under national, regional and CBC components will be ensured.

²⁰ These will cover: 1) Migration and Asylum, 2) Human and Social Development, 3) Non-state actors and Local Authorities in Development, 4) Environment and sustainable management of natural resources including energy and 5) Food Security.

List of abbreviations and acronyms

AP	Action Plan (also: ENP Action plan or EU-Moldova ENP Action Plan)
BSEC	Black Sea Economic Cooperation Pact
CADSES	Central European Adriatic Danubian South-Eastern European Space
CBC	Cross-border Cooperation
CEI	Central European Initiative
CEP	Country Environment Profile
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CoE	Council of Europe
DAC	Development Assistance Committee
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
ECHO	European Commission Humanitarian Aid Office
EG-PRSP	Economic Growth and Poverty Reduction Strategy Paper
EIDHR	European Initiative for Democracy and Human Rights
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
FDI	Foreign Direct Investment
FSP	Food Security Programme
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNI	Gross National Income
GUAM	Georgia, Ukraine, Azerbaijan and Moldova (regional organisation)
HDI	Human Development Index
IFIs	International Financial Institutions
IMF	International Monetary Fund
JHA	Justice and Home Affairs
JLS	Justice, Liberty and Security
MDG	Millennium Development Goals
MoU	Memorandum of Understanding
NGO	non-governmental organisation
NPP	Neighbourhood and Partnership Programme
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OSCE	Organisation for Security and Co-operation in Europe
PCA	Partnership and Cooperation Agreement
PPP	Purchasing power parity
RIP	Regional Indicative Programme
RSP	Regional Strategy Paper
SECI	South-East European Cooperation Initiative
SEECF	South-East European Cooperation Process
SME	Small and medium enterprises

SP	Stability Pact for South-Eastern Europe
SPS	Sanitary and phytosanitary issues
STCU	Science and Technology Centre
SWAP	Sector-wide Approach
TAIEX	Technical Assistance Information Exchange Unit
UNECE	United Nations Economic Commission for Europe
UNDP	United Nations Development Programme
WMD	Weapons of Mass Destruction
WTO	World Trade Organisation

Moldova at a Glance

Land area	Population	Population density
32 880 km ²	4 205 747 (2005)	128 per km ²
Population of main town Chisinau: 716 700 (2004) compared to 778 900 (2001)		
Annual population growth (% per year)		
2000: -0.2	2001: -0.2	2002: -0.4
2003: -0.4	2004: -0.5	2005: -0.3

Sources: Sources:

2006 World Development Indicators, The World Bank, Washington DC, April 2006

National Statistics Bureau of the Republic of Moldova



Economic Indicators²¹

	2000	2001	2002	2003	2004	2005
GDP growth (annual %)	2	6	8	7	7	7
GDP per capita, PPP (\$)	1,500	1,634	1,771	1,905	2,025	2,162
GNI per capita, Atlas method in current US\$	370	400	460	570	720	880
GNI per capita, PPP (current international \$)	1,350	1,470	1,620	1,760	1,930	2,150
Inflation (annual % change)	31	10	5	12	10	7
Exports of goods and services (% GDP)	50	50	53	53	51	52
Imports of goods and services (% GDP)	75	74	78	87	82	83
Exchange rate (PPP \$)	2.9	3.2	3.4	3.6	3.7	3.9
Total debt service (% of Exports of goods and services)	18	18	20	10	12	12
Cash surplus/deficit (% of GDP)	-1	1	..	2	0	0.4

Sources: 2006 World Development Indicators, The World Bank, Washington DC, April 2006

IMF World Economic Outlook Database

Republic of Moldova Ministry of Finance

Country Assistance Strategy Progress Report for Republic of Moldova, Sept 2006

²¹ GNI per capita excludes Transnistria

Selected Social Indicators

	2000	2001	2002	2003	2004	2005
Adult literacy rate over 15s %	98.9	99	99	96.2	98	99
Primary school enrolment (% gross)	96	96	96	95	94	95
Secondary school enrolment (% gross)	83	81	82	83	83	..
Life expectancy at birth	66.6	68.5	68.8	67.7	68	..
Underweight children <5 (%)	3	3	3	3	3	..
<5 mortality rate (per 1,000 live births)	33	32	32	32	28	..
Maternal mortality rate (per 100,000 live births)	27.1	43.9	28.0	21.9
1-year-olds fully immunized (against measles, %)	87	81	94	96	96	..
1-year-olds fully immunized (against tuberculosis, %)	..	98	99	98
Births supervised by trained personnel (%)	99	99	99	99
Improved water source (% of population with access)	92	..	92	..	92	92
Reported new HIV cases	..	232	199	253	357	533

Sources:

2006 World Development Indicators, The World Bank, Washington DC, April 2006

UNDP, Human Development Reports

UNICEF

AIDS Centre, Ministry of Health and Social Protection, Republic of Moldova

Moldova

Country Environment Profile

1. State of the Environment

The key environment issues in Moldova relate to air quality, water quality, waste management and nature protection.

With regard to **air quality**, the main sources of pollution are road transport and energy and heat generation. Overall, air emissions almost halved between 1995 and 2002. However, pollution from road transport represents an increasing proportion of total emissions. Concerning **water quality**, infrastructure for waste water collection and treatment needs to be upgraded and new capacity constructed. A large percentage of households do not have a proper connection to the sewage system. **Waste management** is a significant challenge, including prevention, collection, treatment, recovery and final disposal. Stocks of obsolete pesticides and Polychlorinated Biphenyls (PCBs) require attention. As regards **nature protection**, agricultural practices and unsustainable logging have contributed to soil degradation and loss of biodiversity. With regard to **industrial pollution**, available data suggests that some factors such as water use, waste generation and greenhouse gas emissions have decreased while industrial production is increasing.

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

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

2. Environment policy

A three-year National Environmental Action Plan was adopted in 1996. In 2001, a new Environmental Policy Concept was adopted, reflecting Moldova's environment priorities and objectives. Strategies have also been specifically developed for certain issues, including water resources, persistent organic pollutants and biodiversity. Environment, particularly water co-operation, is part of the Economic Growth and Poverty Reduction Strategy and of the Village environment programme.

3. Environment legislation and implementation

Moldova adopted a framework law on Environmental Protection in 1993, which is being revised with a view to aim at convergence with EU *acquis*.

With regard to **horizontal issues**, provisions on environmental impact assessment are laid down in the law on ecological expertise and environmental impact assessment of 1996. A set of legislative acts provides a legal basis for access to information, including on the environment. Further implementing rules are needed on public participation. In the field of **air quality**, the law on air protection was adopted in 1997. However, air quality standards need to be reviewed. The water code of 1993 has been the main piece of legislation in the field of **water quality**, while legislation was recently adopted on preservation of biological water resources. The ambient water quality standards seem generally stringent, but legal compliance is not enforced in practice. A series of legislative instruments cover the issue of **waste management**. It remains however a significant challenge, including prevention, collection, treatment, recovery and final disposal. The current definitions and classification of waste require attention. Concerning **nature protection**, a law on protected areas was adopted in 1998, while legislation was recently adopted on the protection of endangered species. With regard to **industrial pollution**, there are no integrated permits for industrial installations. Environment permits cover sector-specific environment issues (air, water, waste and soil) separately.

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

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

4. Administrative capacity

The Ministry of Ecology and Natural Resources is the main body for environmental protection. It has however faced staff losses in recent years. The Ministry has one executive authority, the State Ecological Inspectorate, with responsibility for compliance with environmental quality standards.

There are four regional environmental agencies. However, the division of responsibilities between these and environmental departments of local authorities requires attention. In recent years, some tasks previously carried out at municipal level (such as waste management and drinking water management) have been assigned to the regional and local structures of the Ministry of Environment.

Other specialised institutions support environment protection: the National Institute of Ecology, the Laboratory for Environmental Norms and Standards, the State Geological Agency and the State Hydrometeorological Service. The Environmental Information Centre is responsible for collecting and

disseminating environmental information. There is no comprehensive national environmental monitoring programme. A National Environment Fund and four local funds have been created.

In order to enhance strategic planning, implementation and enforcement of environment legislation, the major challenge facing Moldova is to reinforce its administrative capacity at national, regional and local levels, including coordination between the relevant authorities.

5. Participation in regional and international processes

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

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

Moldova is also participating in the **“Environment for Europe” process**, which is a multilateral framework created in 1989 to steer the process of raising environmental awareness in the countries of Central and Eastern Europe, emerging from the old regimes and moving closer to the EU. The core activities of this process are undertaken by a Task Force co-chaired by the Commission and an NIS environment minister.

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

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

6. Key areas where action is required

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

As regards climate change, Moldova needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change. Moldova has significant possibilities to use flexible mechanisms under this Protocol.

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

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

Priorities of other donors including Member States*Member states*

From the **EU-27**, Sweden, the United Kingdom (UK), the Netherlands, Germany, the Czech Republic, Denmark, Poland, Latvia, Lithuania and, starting from 2007, Romania provide assistance to Moldova.

Sweden (SIDA) is the second-largest bilateral donor (after the US) with a budget of €7.0 million in 2005. In 2006 €10 million will be available. The sectors covered include democratic government, social sector and pro-poor economic growth (including agriculture, energy, labour market and debt negotiations). The new strategy for 2007-2010 is currently being finalised and suggests a concentration where the support to the social sector and labour market initiatives will be phased out during 2007-2010.

The **UK** (DFID) is currently working on the basis of its 2005-2008 strategy with an annual budget of approx. £2.5 million. Priority sectors include pro-poor economic growth, good governance and conflict resolution. The longer term future of DFID's programme to Moldova will be considered by a departmental exercise under the British Government's Comprehensive Spending Review. To promote best development practice, DFID aims to start new project work jointly with other donors, for example a joint social sector project with SIDA is under preparation. DFID is expected to contribute to the World Bank Poverty Reduction Support Credit Multi Donor Trust Fund.

The **Netherlands** are also providing bilateral assistance and will provide co-financing for the World Bank's Poverty Reduction Support Credit (PRSC).

Germany has been providing bilateral assistance since 1991 with an overall budget of €21 million. The overall aim is to support a sustainable development of the Moldovan economy with a focus on the small and medium business sector. Germany also contributed €4.6 million to the World Bank's Social Investment Fund. In 2006, a budget of €5million will be available for an agriculture modernisation project as well as for the development of the ProCredit Bank (fiduciary fund). Moreover, the "Deutsche Gesellschaft für technische Zusammenarbeit (GTZ) manages six ongoing small projects in the fields of social care, small and medium business development and prevention of human trafficking.

The **Czech Republic** has been providing bilateral assistance to Moldova since 2001. In 2004 Moldova was identified as one of the eight priority countries for long-term development cooperation. Currently this cooperation is working on the basis of the 2006-2010 Development Cooperation Programme with an annual budget (2007) of approx. €1,13 million. Within the framework of its development cooperation with Moldova, the Czech Republic is focusing on the sectors of environmental protection and human resources development, mainly through efforts aimed at stabilisation of the social and economic situation, and strengthening of national migration and border management. In the area of education the Czech Republic is putting the accent on exchange of experience among scientific and research institutes in both countries, especially in the field of agriculture.

The **Danish assistance** to Moldova primarily focuses on the fight against human trafficking. For the period 2005-2008 more than €1,1 million will be allocated to activities focusing on law enforcement, preventive activities, and capacity building of authorities and civil society organisations. The programme is implemented by the International Organisation for Migration (IOM), La Strada and the Centre for Prevention of Trafficking of Women (CPTW).

Poland provides assistance to Moldova of approximately €1 million per annum, in particular in the following sectors: economic reforms, public administration reform, and support for local government.

Moldova is a priority country for **Latvian bilateral assistance**. Activities focus on projects aiming at capacity building and civil society development.

Lithuania provides its assistance in strengthening democracy as well as capacity building in the areas of justice, freedom and security including border management.

Starting 2007 **Romania** will channel a large part of its development assistance to Moldova as one of its top beneficiaries. The priorities of the bilateral assistance will be circumscribed to good governance, strengthening democracy and the rule of law, economic development, education, health, infrastructure development and environment protection.

Other donors including IFIs

EBRD has managed 41 projects with a cumulative portfolio of €200 million over the last ten years. The focus has been on infrastructure and financial institutions. The new 2005/2006 strategy will focus on private sector development (SMEs, rural finance) and infrastructure.

The **European Investment Bank (EIB)** has started identifying lending operations in Moldova with a focus on public infrastructure in the energy, transport and environment sectors.

The **World Bank (WB)** has supported Moldova's transition to a market economy since 1992. In the 2005 fiscal year World Bank commitments to the country were \$ 12 million. Overall commitments for active projects total \$ 149 million. The World Bank's Country Assistance Strategy (CAS) for 2005 to 2008 focuses on three strategic priorities: i) reducing poverty by promoting economic stability, growth and employment, ii) improving access to social services and minimising environmental risks and iii) improving governance and fighting corruption. The new CAS for Moldova envisages a lending programme of between US\$ 90 million and US\$ 137 million. The World Bank is about to launch a First Poverty Reduction Support Credit (PRSC I) to Moldova equivalent to USD 10 million. PRSC-I would be the first in a series of three single tranche operations that would facilitate the implementation of cross cutting reform aimed at improving the living conditions of the Moldovan population.

The IMF approved in May 2006 a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for an amount equivalent to about US\$ 118.2 million. The IMF supported programme is designed to support growth and poverty reduction by maintaining macroeconomic stability, particularly in the face of strong inflows of remittances and sharply higher prices for imported energy. It also strives to improve the performance of the financial sector.

UNDP is currently working on its new 2007-2011 strategy (United National Development Assistance Framework – UNDAF) which is likely to focus on three priority areas: i) governance and participation,

ii) access to quality services including health, education and social protection, iii) regional and local development

USAID is currently providing assistance for an annual budget of approx. US\$ 15 million. Three strategic objectives are covered: i) economic growth with a focus on agro-business and enhancing competitiveness, ii) democracy and governance (most work on which is done at local community level) and iii) health sector programmes on tuberculosis, HIV/AIDS and hepatitis. Moldova is also now eligible under the Threshold Programme of the Millennium Challenge Corporation (MCC) where actions will focus on anti-corruption measures. Full-fledged MCC assistance is likely to become available in 2007.

Switzerland (Swiss Agency for Development and Cooperation) is currently spending about SFR 2.5 million per year and anticipates that its available resources will increase to SFR 4 million in coming years. Focal areas are “employment and income” (including VET and local economic development) and social development. Swiss Cooperation is also working on rural water/sanitation through its humanitarian aid budget.

“Policy mix” considerations in the context of the Moldova CSP

The issue of Transnistria plays an important role in the context of the **Common Foreign and Security Policy (CFSP)**. The settlement process has entered a new phase with greater EU and US involvement. Since October 2005, the EU and the US are actively participating in the settlement process within the so-called “five-sided mediation process” (5+2). Following a joint request of the Presidents of the Ukraine and Moldova, an EU Border Assistance Mission (EU BAM) has been in place since 1 December 2005 on the Ukrainian-Moldovan border, with particular focus on the Transnistrian section.

In 2003 the EU and the US introduced a **visa ban** against leading members of the separatist regime. The EU renewed this ban in February 2006. According to the OSCE, the **human rights situation** in the separatist region is unsatisfactory. Rights of minorities, in particular language rights, are not respected.

The Transnistrian conflict **has also taken a toll in economic terms**. Most of the industrial structure of Moldova is located in Transnistria, together with important power plants. The disruption of trade links had a negative effect on both sides, exacerbated in Moldova by the negative effect of a shortfall in revenues and customs duties accruing to the national budget. A key element in any effort to achieve a settlement will be ensuring Moldova’s control over its entire customs territory.

Depending on developments regarding the settlement of the Transnistria conflict, the EC will provide **further specific assistance**, within the overall resources available, related to all aspects of conflict settlement and settlement consolidation.

Regarding **conventional weapons disarmament**, Moldova is not considered to be affected by antipersonnel landmines (APL), except in Transnistria where the situation is unclear. However, pollution by **explosive remnants of war** (ERW, such as abandoned ammunition dumps, unexploded ordnance) is real, due to Second World War action as well as the 1992 conflict. As regards **small arms and light weapons** (SALW), the Transnistrian conflict has created a situation where small-arms stockpiles abound. A number of uncontrolled commercial transactions involving the sale of small arms originating from Moldova which have fuelled a number of African conflicts have been mentioned in UN official reports. Moldovan authorities have improved their export control procedures under international pressure. However, border control, stockpile management and aviation safety/security regulation remain difficult. These are key areas in the fight against trafficking and the spread of illicit small arms and light weapons.

Concerning **energy**, Moldova is almost entirely dependent on imports, in particular from Russia. Russian gas directed towards South East Europe and Turkey passes through Moldova. Events related to gas disputes, notably on gas pricing, between Russia, the Ukraine and Moldova (December 2005/January 2006) showed the high vulnerability of Moldova in this regard. Moldova is making efforts to diversify its sources of energy supplies and has requested EU assistance on this matter. The energy sector also suffers from inefficiency, insufficient bill collection, payment arrears and a need to invest in a generally outdated infrastructure. Against this background, support for energy-related issues will be a key element of the EC’s future assistance strategy.

JLS cooperation with Moldova is increasingly close. A fundamental overhaul of the judiciary, stronger border management and the development of an asylum system fully in line with European standards are key issues in this area. In terms of the **migratory situation**, Moldova is an important

source country for illegal migrants to the EU. Due to the difficult economic situation the incentive to seek employment abroad remains strong, with a considerable number of Moldovan citizens falling victim to various forms of trafficking. The EC has provided substantial JLS-related assistance under its Tacis programme and will continue to give high priority to these issues under the future ENPI.

Moldova is the poorest country in Europe. General principles and EC policies regarding **development cooperation** therefore apply. The Moldovan government adopted an Economic Growth and Poverty Reduction Strategy Paper (EG-PRSP) in May 2004 and approved a First National Report on the Millennium Development Goals (MDGs) in March 2005. Country-specific MDGs have been developed for Moldova. This external assistance strategy for Moldova therefore has a strong focus on poverty reduction in particular at regional and local community level.

In the area of **trade policy** the EU is a key import and export market for Moldova. Moldova has benefited from the General System of Preferences Plus (GSP+) since 1 January 2006 and the EU is considering granting Autonomous Trade Preferences. Improving the system of certification and the control of rules of origin are important prerequisites in this regard and the Moldovan government is actively working on these issues supported by EC assistance.

In the field of **transport** Moldova played an active part in the EU-Black Sea-Caspian Basin Ministerial Conference in November 2004 in Baku and in their follow-up Working Groups. The EC has a strategic interest in providing support for areas identified as important in this context and for priority measures in line with the recommendations of the High Level Group on the extension of the major trans-European transport axes towards neighbouring countries and regions. The Commission has adopted in March 2005 a Communication proposing the creation of a wider European Common Aviation Area including the neighbouring countries of the EU by 2010. It also includes the objective of Moldova joining this initiative in the medium term.

As regards environment protection, **global and transboundary environment threats** like climate change affect Moldova as well as the EU. Both parties are committed to implementing the Kyoto Protocol and the UN Framework Convention on Climate Change. Trans-boundary environmental threats include the use and protection of shared waters, in particular the Danube River and the Black Sea. The EC is currently providing support in this area on a regional basis and envisages follow-up measures under future assistance programmes.

EC assistance to Moldova, 1991-2006 (in €million)*

	1991 -1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
<i>TACIS National Programme**</i>	***41,1	14,7	-	14,8	-	25,0	-	42,0	-	137,6
<i>TACIS Cross-border Cooperation****</i>	-	-	2,0	3,0	1,1	2	1,0	3,6	10	22,7
<i>TACIS Regional Programme****</i>	-	-	0,9	-	1,25	-	6,6	5,1	12,3	26,15
<i>Food Security</i>	-	-	5,5	-	10,4	-	10,0	-	10,0	35,9
<i>Macro-Financial Assistance</i>	87.0				-					87.0
<i>Humanitarian Assistance</i>	-	3.9	0.8	0.8						5,5
<i>PVD-NGO COFINANCING</i>	-	-	-	-	-	0,5	-	-	-	0,5
<i>Human rights (EIDHR)</i>	-	-	0,2	0,47	-	-	-	-	-	0,67
<i>SPP</i>	-	-	-	4,7	-	-	-	-	-	4,7
Total	128,1	18,6	9,4	23,77	12,75	27,5	17,6	50,7	32,3	320,72

* 2006 figures indicative and not available for each item

** Including TEMPUS

* ** Overall figure for technical assistance in 1991-98 (mostly Tacis) Source: AIDCO A/1

**** Estimated pro-rata share for Moldova in cross-border (NP and CB) and regional programmes.