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MOLDOVA

RESULTS REVIEW

AND

RESOURCE REQUEST

USAID/West NIS

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PART I: FACTORS AFFECTING PROGRAM PERFORMANCE

Moldova's economic and democratic transition has been among the most notable in the NIS, boasting a stable currency, relatively low inflation, mass privatization that is virtually complete and presidential elections in November - December, 1996 that were considered free and fair by international observers. That said, however, Moldova still has a long way to go in deepening and extending the reforms that have already been initiated.

Moldova's economy is still contracting and its crucial agricultural sector, though nominally privatized, remains largely unrestructured and under-productive. Energy is still an over-riding problem, from a lack of resources and dependence on fuel imports from Russia to inefficient use of supplies and a lack of market mechanisms to set pricing. Fiscal reforms, most notably involving taxation, have been developed by the GOM and passed by parliament, but implementation will be a lengthy process requiring extensive training for Ministry of Finance and tax administration personnel.

Democratic reforms have resulted in free and fair elections for both president and parliamentarians, an independent judiciary, and an expanding civil society including a budding NGO sector and a growing number of independent newspapers and TV and radio stations. Nonetheless, reforms have yet to yield significant improvements in government services. Independent media companies, which are an important source of objective news, are struggling to survive and adapt to market conditions. Advances in strengthening the rule of law are still limited by the judicial system's need for training and a lack of information resources and even physical infrastructure - many courts don't have a permanent location.

The new president, Petru Lucinschi, and the new government that was appointed in the wake of the presidential elections have endorsed continuing reforms. However, few new initiatives are expected due to upcoming campaigns for parliamentary elections in March, 1998. Lucinschi's election has had a positive impact on the ongoing negotiations with the break-away Transdniester region, reflecting Lucinschi's close relations with Moscow and his firm stand against Moldova reuniting with Romania. But Transdniestria has resisted economic and democratic reforms, which means that if a settlement is reached and the region is reintegrated with the rest of Moldova, USAID can expect the GOM to request additional assistance in helping the region catch up to the rest of the country.

PART II: PROGRESS TOWARD OBJECTIVES

SO 1.1 Increased transfer of state-owned assets to the private sector

In the area of privatization, the Government of Moldova (GOM) continued along a path of economic reform in 1996. Key to the success of the privatization efforts, but especially the completion of the Mass Privatization Program for National Patrimony Bonds (NPBs), has been the committed leadership provided by the Minister of Privatization. This leadership with the support of other high-level cabinet representatives and Members of Parliament, has also resulted in impressive strides in the area of land privatization in 1996.

It is important to note that 1996, and possibly 1997, should be regarded as "transition" years. In 1996, people of Moldova readied themselves for a presidential election. The newly-elected government may find itself in a state of flux in 1997 in anticipation of the 1998 parliamentary elections. The uncertain environment that has resulted from back-to-back national elections is delaying passage of two key pieces of legislation critical to ongoing privatization efforts.

The first is the State Privatization Program for 1997-1998, submitted by the Ministry of Privatization to Parliament in late 1996. This is the GOM's third privatization program, and among other issues, it envisions support for and continued authority by the Ministry of Privatization to proceed with the cash sale of small-scale objects, residual state large and medium enterprises, and unfinished constructions. In principle, the implementation of this program will signal completion of the privatization process of state property in the Republic of Moldova, other than land.

The second piece of legislation, submitted to Parliament June 1996, seeks to amend the Law on the Normative Prices of Land. This amendment when passed will lower the prices of land under and attached to privatized enterprises to enable privatized enterprises to acquire legal title to their property. The amendment would lower the prices of urban land by 90 percent and would vest authority in the Ministry of Privatization to execute the sales.

1. Performance Analysis

OBJECTIVE: SO 1.1 Increased Transfer of State-Owned Assets to the Private Sector **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** USAID/Kyiv			
RESULT NAME: SO 1.1: Increased transfer of State-Owned assets to the private sector			
INDICATOR: Percentage of GDP generated by the private sector.			
UNIT OF MEASURE: percentage	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: World Bank, EU-TACIS	1993(B)		0
INDICATOR DESCRIPTION: private sector GDP	1996	--	40
COMMENTS:	1997	45	
	1998	50	
	1999	55	

To date, more than 2,235 small, medium and large enterprises have been totally or partially privatized thereby making Moldova only the second republic in the Former Soviet Union to complete its mass privatization program using bonds or vouchers as a means of payment to acquire state assets.

According to the Word Bank, the Moldovan economy's private sector has been increasing gradually over the past five years (from three percent per annum in 1992 to 19.3 percent in 1996). The continued transfer of state-owned assets to the private sector should contribute to increasing the level of private sector assets in Moldova..

Based on Ministry of Privatization information, the private sector in Moldova is making a significant contribution to the production of goods and services and in the creation of new jobs. It represents 60 percent of industrial output, 70 percent of retail and social services and 44 percent of capital construction and transportation[1]. As a result of the Mass Privatization Program, 3.1 million citizens became shareholders in privatized enterprises, investment privatization funds, and/or co-owners of small-scale objects.

The key indicator for this strategic objective is the **Percentage of GDP generated by the private sector** reported at 40 percent for 1996[2]. This percentage should be viewed with caution due to the difficulty in estimating the impact of the shadow economy.

Government of Moldova, Draft Law on Privatization Program for 1997-1998.

EBRD Transition Report, 1996.

IR 1.1.1: Enterprises privatized through mechanisms other than NPBs

OBJECTIVE: SO 1.1 **Increased Transfer of State-Owned Assets to the Private Sector** **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** USAID/Kyiv			
RESULT NAME: IR 1.1.1: Enterprises privatized through other mechanisms.			
INDICATOR: Medium and large enterprises originally sold for NPBs (1142 enterprises) effectively privatized.			
UNIT OF MEASURE: number of enterprises	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: MOP, IBTCI	1995(B)		0
INDICATOR DESCRIPTION: enterprises at least 90% private	1996	840 (T)	550
COMMENTS:	1997	200	
	1998	300	
	1999	N/A	

This intermediate result addresses future performance of enterprise privatization. The GOM has submitted to Parliament for approval the Law on Privatization Program for 1997-1998. Among other objectives, it seeks to: (1) shift from mass privatization based on patrimonial bonds to privatization for cash; and (2) apply multiple methodologies to achieve privatization including the sale of residual state-owned shares utilizing the Moldova Stock Exchange as a venue, open outcry auctions for small scale objects, as well as other mechanisms to settle state debts with state property objects.

In an effort to more accurately assess GOM's progress in this area, two indicators are in place to measure ongoing privatization following privatization for NPBs. The first indicator looks at a very defined universe of medium and large enterprises, i.e, those that are 90 percent private. While the GOM in its 1995-1996 Privatization Program set a target of 840 enterprises, only some 550 were privatized through the use of NPBs. This target was not met because the GOM did not offer 100 percent of the share packets of the enterprise for privatization but held back anywhere from 30 to 60 percent of the share packets and, in instances when 100 percent of the shares were offered for privatization, the entire amount of shares was not subscribed for NPBs. It is these remaining state-share packets which will now be offered for cash through multiple mechanisms.

OBJECTIVE: SO 1.1 Increased Transfer of State-Owned Assets to the Private Sector APPROVED: June 1996 COUNTRY/ORGANIZATION: USAID/Kyiv			
RESULT NAME: IR 1.1.1: Enterprises privatized through other mechanisms.			
INDICATOR: Enterprises not offered for NPBs, including small-scale and unfinished constructions transferred to the private sector			
UNIT OF MEASURE: number of enterprises	YEAR	PLANNED	ACTUAL
SOURCE: MOP, IBTCI	1995(B)		0
INDICATOR DESCRIPTION: approximately 470 such entities not including those in case-by-case privatization, have been identified in 1995-1996 and draft 1997-1998 Privatization Program	1996	N/A	45
	1997	150	
COMMENTS:	1998	250	
	1999	N/A	

The other indicator looks at small-scale objects and unfinished constructions which were offered for cash under the 1995-1996 Privatization Program but were not sold. A target number for 1996 was never given because USAID's role was that of only helping the GOM price the objects more effectively as opposed to engaging in the sales process. The Ministry of Privatization contracted with four private auction houses to prepare the enterprises and conduct the auctions.

IR 1.1.1.1: Enterprises privatized through NPBs
IR 1.1.1.2: People participate in mass privatization program
IR 1.1.2: Housing units are privately owned

All of the three intermediate results listed above and their accompanying indicators address the GOM's Mass Privatization Program for NPBs and reflect USAID-supported technical assistance initiated late in 1993.

The 1993-1994 SPP made provisions for the privatization of enterprises for NPBs. More than 3.3 million NPBs were issued. The citizens of Moldova were able to utilize their NPBs to purchase shares in enterprises subject to privatization and/or housing units. A bondholder could invest his/her NPB in the shares of an enterprise, by participating at an auction as an individual, or by joining a voucher club, or by delegating his decision right to an investment fund or a trust company. A public information campaign was in place throughout the SPP and the success of this effort is evidenced by the relevant indicators. **IR 1.1.1.2 reflects that 98 percent of the Moldovan population picked up their NPBs and about 93 percent of population invested them directly or indirectly through one or both of the privatization processes. Therefore, the program came very close to achieving the respective targets.**

The 1993-1994 SPP provided for the privatization of 1,550 enterprises through the use of

NPBs via share for subscription auctions and open-outcry auctions. Targets were modified again in the 1995-1996 SPP. For purposes of privatization, enterprises were placed in one of two categories: medium and large-scale enterprises defined as having a book value of at least 1.0 million monetary units and small-scale enterprises with a book value of less than 1.0 million monetary units, as of January, 1992.

According to Ministry of Privatization information, 1,142 medium and large enterprises and 1,200 small-scale objects were placed on the GOM privatization lists. **IR 1.1.1.1. Enterprises privatized for NPBs** has two indicators. The first measures the number of medium and large enterprises privatized (defined as having between 10 and 100 percent of the assets under private control). Whereas the target for this indicator was set at 1,142 firms, the actual result as of December, 1996, was 1,089. The target for the second indicator dealing with small-scale objects with 100 percent of the assets under private control was achieved and exceeded. Additional small-scale objects are currently being privatized for cash and have been added to the GOM 1997-1998 SPP following conclusion of the Mass Privatization Program.

IR 1.1.2: Housing units are privately owned

OBJECTIVE: SO 1.1 Increased Transfer of State-Owned Assets to the Private Sector **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** USAID/Kyiv			
RESULT NAME: 1.1.2: Housing units are privately owned			
INDICATOR: Number of units privatized			
UNIT OF MEASURE: cumulative number	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: MOP	1994B		102,000
INDICATOR DESCRIPTION: number of privatized apartments formerly for NPBs; as of 1997 for cash only	1996	180,000(T)	200,000
	1997	200,020	
COMMENTS:	1998	200,120	
	1999	200,320	

This IR monitors an alternative use of NPBs. Though there was no USAID involvement in this effort other than through the public information campaign, it is also indicative of the broad popular participation by the Moldovan people in this process as they sought to utilize their NPBs to acquire ownership of their dwellings. With a 1994 baseline of 102,000 and a 1996 target of 180,000, the actual result of 200,000 apartment units privatized is well in excess of the set target. The targets for 1997, 1998 and 1999 are very conservative as continued housing privatization will be for cash only.

Throughout the process, the GOM's Mass Privatization Program was carried out in a fair, open and transparent manner, and as noted above, making Moldova only the second republic of the NIS to complete this effort. The Republic of Moldova has successfully completed the first phase of economic reform in its transition to a market economy.

IR 1.1.3: Farm land is privatized and titles issued

There are two indicators for this intermediate result. The first indicator is **State or collective farms broken up.** The target and result in 1996 was one pilot farm.

OBJECTIVE: SO 1.1 Increased Transfer of State-Owned Assets to the Private Sector **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** USAID/Kyiv			
RESULT NAME: 1.1.2: Housing units are privately owned			
INDICATOR: Number of units privatized			
UNIT OF MEASURE: cumulative number	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: MOP	1994B		102,000
INDICATOR DESCRIPTION: number of privatized apartments formerly for NPBs; as of 1997 for cash only	1996	180,000 (T)	200,000
COMMENTS:	1997	200,020	
	1998	200,120	
	1999	200,320	

The second indicator is **Number of rural land titles issued to individual members of state or collective farms.** By the time this pilot effort was completed in March, 1997 1,370 titles were issued. An expansion of the pilot effort is underway which is expected to result in the issuance of more than 70,000 individual land titles.

In the spring of 1996, USAID initiated a pilot collective farm breakup activity in the district of Nisporeni at the Mayak collective farm. This effort was implemented in conjunction with the Ministry of Privatization and supported by the Ministry of Agriculture (MOA), Parliament and the GOM.

The Mayak collective farm consisted of approximately 1,500 hectares of cultivated land, 588 hectares of vineyards, and 372 hectares of orchards. The pilot project had two objectives: 1) to effect the complete "breakup" of this collective farm by distributing its agricultural land and physical property to eligible employees and retired persons; and 2) to issue constitutionally protected land titles to each new landowner duly recorded at the central and local levels. **A total of 4,479 parcels were created, and 1,370 constitutionally protected land titles were prepared, issued and registered by March, 1997.** The issuance of these titles in essence completed the titling and registration work at the Mayak collective farm and signaled the total and complete dissolution of the former entity.

IR 1.1.4: Privatized enterprises acquire associated land and titles issued

This IR focuses on urban land privatization and consists of three indicators, none of which has been met. The corresponding explanation is provided below.

As in most of the former Soviet Republics, when the government privatized enterprises with their corresponding assets, land was excluded from the enterprises' balance sheets and, therefore, remained state owned. As a result, a typical privatized enterprise in Moldova owns its buildings but not the land on which its buildings are located. Although privatized enterprises are not prohibited from owning land underneath and surrounding their privately owned buildings, no known privatized enterprise has acquired its associated land from the state because: (i) the normative price for enterprise land is not affordable to privatized enterprises, and (ii) no mechanism existed by which to transfer the ownership of such land from the state to privatized enterprises.

To reduce the exorbitant prices imposed by the Law on Normative Prices of Land, USAID is assisting the Ministry of Privatization in developing the legal and regulatory environment conducive to a land and real estate market, including drafting the amendment to the law and its implementing regulations. After many months of intense work, the Government approved the proposed amendment to reduce normative prices by as much as 90 percent in some areas (but only by 66 percent in the capital). As of May, 1997, Parliament has not acted to amend the Law. However, we expect Parliament will approve the new schedule of prices sometime in 1997. Once the Law is passed, the USAID contractor will assist more than 125 privatized enterprises (which have completed all the necessary paperwork) to acquire title to their land. As noted above, the other two indicators are conditioned on Parliament amending the Law on Normative Prices of Land.

IR 1.1.3/4.1 Legal framework enables land privatization focuses on two very specific aspects and indicators of land privatization. The first has to do with successfully amending the Law on Normative Prices of Land (discussed above). The second indicator has to do with streamlining the titling and registration procedures applicable to rural land titles. Work on this did not begin till late in 1996, and while the proposed government decision has been submitted to senior GOM officials for their review and comment, actual and transaction costs have not been reduced. This GOM decision will also serve to convert to fully legal and constitutional titles some 100,000 provisional titles issued by local administrations over the past several years. We expect this to have a significant impact in stimulating the development of land markets.

In December 1996, draft regulations and a parceling/titling cost analysis were submitted to the GOM to streamline the land titling process to validate a fast, simple, transparent, legal and low-cost titling procedure at the local government level. The proposed reform eliminates the need for legally required State and Local Government subsidies.

Previously, bureaucratic, cumbersome, and complex procedures, in addition to exorbitant titling fees, made it very difficult for peasant farmers to obtain constitutionally protected land titles. Unreasonable survey, land arrangement and titling procedures required as much as 12 months for the Ministry of Agriculture (MOA) to issue one land title. Also the lack of MOA capacity to perform the required survey and land arrangement projects has limited its efforts to no more than a few collective farms each year.

Previously, the MOA, through unpublished instructions, illegally imposed a fee of $32.60 to $39.10 per title for survey and agrotechnical work to be paid to a single MOA agency for performance of parceling and titling work. In March, 1997, this fee and the state monopoly were repealed by the GOM as an initial result of the above-mentioned draft regulations and cost analysis.

2. Expected Progress through FY 1999 and Management Actions

USAID plans to support the GOM in the cash privatization of residual state-share packets, unfinished constructions, and small-scale objects. This commitment is subject, however, to GOM officials recognizing that the market should be the determining factor in setting the price and sale of the remaining state-share packets and that this process should be conducted in a fair, open and transparent way. Divesting the government as quickly and as easily as possible from the remaining ownership and management of partially privatized enterprises will accelerate restructuring, provide new capital resources and stimulate corporate governance practices.

In the area of rural and urban land privatization, USAID is equally committed to continuing this effort. In FY 1997, resources will be utilized to implement the breakup of the 70 collective farms and issue the estimated 70,000 land titles, continue development of the legal and regulatory framework, and assist the GOM to streamline the survey and titling and registration process. In this effort, USAID has the support and commitment of the World Bank and the International Monetary Fund. Both entities work closely with USAID in setting common privatization targets and garnishing support in Parliament for adoption of the amendment to the Law on Normative Prices of Land. Based on the experience gained through the breakup of the 70 collective farms, including the development of various manuals targeted at different audiences, discussions are underway with the GOM (including the Ministry of Privatization and the Ministry of Agriculture), and the World Bank, as to the role and resources to be committed by USAID in FY 1998 and, possibly, FY 1999. Initial expectations are that USAID will take the lead in a national roll out effort targeted at the more than 900 remaining collective farms. If and when the Parliament amends the law on land pricing additional resources will also be required to support an expanded effort of the urban land privatization program with the expectation of providing the necessary information and/or manual to more than 1,100 medium and large privatized enterprises.

Strategic Objective 1.1 Resource Request

FY 97	FY 98	FY 99
6,250	5,000	4,250

SO 1.2 Increased soundness of fiscal policies and fiscal management practices

The GOM continues to be receptive to fiscal reform, yet progress toward achieving the targets for SO 1.2 slowed in 1996. Major factors were that the economy failed to achieve the expected turnaround to positive growth and that the presidential election seems to have distracted much of the government, especially the Parliament, from making progress on key legislation, including the income tax law submitted in July 1996. Improvements in budget preparation moved ahead, revenue collections continued to decline, but IMF budget deficit targets were not met. Progress on developing the treasury system has slowed, due in significant measure to the failure to appoint a head of Treasury in the MOF.

1. Performance Analysis

OBJECTIVE: SO 1.2 Increased Soundness of Fiscal Policies and Fiscal Management Practices **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** USAID/Kyiv			
RESULT NAME: Increased soundness of fiscal policies and fiscal management practices			
INDICATOR: GOM meets deficit targets.			
UNIT OF MEASURE: Yes/No	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: IMF Resident Representative	1995(B)		No (5.5%)
INDICATOR DESCRIPTION: Budget deficit does not exceed limit in IMF program, according to IMF definition	1996	Yes (3.5%)	No (6.2%)
COMMENTS:	1997	Yes (3.5%)	
	1998	Yes	
	1999	Yes	

The government did not meet the target for 1996. Decline in GDP was expected to end in 1996, and some slight positive growth was anticipated. However, year-end figures showed a continuation of negative growth, which was attributed in part to drought and a poor fall harvest in this largely agricultural country. Due to the failure to meet the deficit targets and arrest the decline in revenue collection, the IMF has suspended planned loans to Moldova since mid-1996.

IR 1.2.1: MOF budgeting and financial management practices are reformed.

OBJECTIVE: SO 1.2 **Increased Soundness of Fiscal Policies and Fiscal Management Practices** **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** USAID/Kyiv			
RESULT NAME: IR 1.2.1: MOF budgeting and financial management practices are reformed			
INDICATOR: Comprehensive budget process law: Implemented, following adoption.			
UNIT OF MEASURE: Yes/No	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: Parliament, MOF- Budget Dept.	1995(B		No
INDICATOR DESCRIPTION: Covers State budget classification, preparation, adoption, execution, control and auditing, plus local government budgets and State debt authority	1996	No	No
	1997	Yes	
	1998	Yes	
COMMENTS:	1999	Yes	

The indicator is **Comprehensive budget process law: implemented, following adoption.** The budget process law was adopted on March 31, 1997. Therefore it is expected that the target for implementation of the law in 1988 will be achieved.

IR 1.2.1.1: Macroeconomic forecasting capability is improved [IMF]

The key indicator is **Government's budget includes a statement of economic policy and an explicit statement of the budget's economic assumptions.** The target was achieved in 1996 as scheduled.

IR 1.2.1.1.2 and **IR 1.2.1.1.3:** Indicators for improvement in the budget process include **Budget meets international standards** for budget classification and **Budget preparation procedures are streamlined** to incorporate specific aggregate and ministry expenditure limits.

The government exceeded the first target, by adopting the new classification for both budget formulation and budget execution, but the second target was not achieved as scheduled.

IR 1.2.1.2: Treasury system that integrates budget execution, accounting, cash and debt management is implemented

The record of achievement in establishing this key function is mixed. While the indicators of adopted a Treasury organization as recommended and implemented a pilot treasury system were achieved on target, the government failed to make the expected progress on the more technical indicators of closing ministry bank accounts and deploying the computerized treasury system.

IR 1.2.2: A market-oriented tax system that encourages compliance is created

OBJECTIVE: SO 1.2 Increased Soundness of Fiscal Policies and Fiscal Management Practices **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** USAID/Kyiv			
RESULT NAME: IR 1.2.2: A market-oriented tax system that encourages compliance is created			
INDICATOR: Tax base broadening.			
UNIT OF MEASURE: number	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: MOF-Tax Analysis Unit	1995	N/A	N/A
INDICATOR DESCRIPTION: Sources of income subject to tax **COMMENTS:**	1996B	N/A	30,000 self-employed; 900,000 employees; 120,000 employers-taxpayers
	1997	N/A	
	1998	N/A	
	1999	N/A	

The indicator is **Tax base broadened.** The target for 1996 was reached, as determined by the number of taxpayer identification numbers issued (30,000 self-employed; 900,000 employees; 120,000 employers-taxpayers).

IR 1.2.2.1: Tax system supports economic growth

The key indicator here is **Income tax laws (corporate and individual) are revised using international standards and combined into a single tax code.**

This target was not achieved in 1996, due to delays in Parliamentary deliberations on the income tax law stemming from the presidential elections. However, the legislation did reach the stage of third reading and was expected to pass in the first half of 1997. The new President has made a commitment to support the enactment of this law.

IR 1.2.3: Parliament acts affirmatively on fiscal reform legislation

The key indicator is **Budget process law is adopted.** The target was met as the law was passed in 1996.

IR 1.2.3.1: Budget and Finance committee's deliberation on fiscal legislation is improved

The key indicator is **Analytic reports prepared on major budget programs with policy recommendations.** The target was exceeded in 1996--the target was five reports prepared and actually fifteen reports were prepared.

IR 1.2.3.2: Center for Budgetary and Financial Analysis is operational

The target for bringing this parliamentary center, the first of its kind in the NIS, into operation in 1996 was not achieved, owing to delays in passing the necessary legislation. However, the law was enacted in early 1997, and the CBFA is expected to be operational by mid-year.

2. Expected Progress through FY 1999 and Management Actions

Concerns about Moldova's economy and budget continue, as the GOM proceeds in negotiations with the IMF on a new financial program and a resumption of lending. It appears that the GOM will agree to step up the pace of reform efforts and curb certain questionable practices, such as a sharp rise in government borrowing for deficit financing. As the parliamentary elections scheduled for the spring of 1998 draw nearer, resistance to major reform measures is likely to increase. In this context, passage of the income tax law in late April 1997, for implementation as of January 1, 1998, is a welcome sign of progress. Another good sign is that the Budget and Finance Commission appears to be prepared to consider the new VAT law which is in an advanced stage of drafting and due to be submitted to the Parliament in June 1997, also projected for implementation as of January 1, 1998.

If all goes as anticipated under the current program, then by the end of calendar year 1997, we expect to have the following in place:

- Income and value-added tax laws enacted for implementation as of January 1, 1998.
- All of the basic regulations and forms needed for implementation of the income tax and VAT laws prepared, plus training of key tax officials in the provisions and administrative requirements of these laws.
- Work underway on excise tax law revision and implementation.
- Completion of system plan and procurement for computerization of the State Tax Administration under a World Bank loan.
- Core staff hired and trained for the Parliamentary Center for Budgetary and Financial Analysis, and necessary equipment furnished.

In 1998, continuation of current initiatives at the FY97 level of funding would be expected to accomplish the following:

- Refine and hopefully complete work on revision, codification and promulgation of regulations for the tax laws listed above.
- Major emphasis on improvement of tax administration, including development of enforcement techniques, reorganization of State Tax Service, and training of tax officials.

- Complete procurement of computers for the STS under the World Bank loan and undertake installation and activation of the system, first in Chisinau and then throughout the country.

- Complete staffing of Parliamentary Center and continue training of staff in analytic techniques.

Strategic Objective 1.2 Resource Request

FY 97	FY 98	FY 99
2,320	3,000	1,950

3. Funding Constraints

In order to meet the broader fiscal reform needs in Moldova as defined by the Ministry of Finance and also by those engaged in USAID privatization programs, it would be necessary and desirable to undertake activities in four additional areas:

1. Tax Administration Training: Establishment of a training center for tax officials and possibly other MOF officials, along the lines of the center about to open in Kiev. The potential for the GOM playing its role in this by providing a facility is already being explored. USAID would provide funding for course development and instructors, plus equipment and furnishings for the training center.

2. Customs: Modernization of customs law and administration, to relieve major problems in revenue collection (not only customs duties but also VAT and excise taxes), reduce corruption and tax evasion, and facilitate the conduct of international trade. Even if the IMF provides some assistance, this will be limited in nature, and thus far, this does not appear to be materializing--while problems keep increasing.

3. Fiscal Federalism: Development of a modern system of fiscal federalism/ intergovernmental finance, including assignment of revenue sources and expenditure responsibilities, establishment of a system of central government transfers to local government, and training of local finance officials in budgeting techniques.

4. Development of a real property tax law, in conjunction with land privatization activities and in support of intergovernmental finance reform--including developing a land register (in progress to some extent) and assessment techniques, as well as a basic law; then training in implementation.

Of the four proposed new programs, probably the only one that could be undertaken based on the projected FY98 level for this SO is the Tax Administration Training Center, for which planning is already underway. This is because the additional funding planned for FY98 approximates the amount needed to get the center underway and because funding could be reduced in the second year by limiting the additional training programs provided or, again, by finding another donor.

The other three programs -- customs, fiscal federalism, and property tax -- are vital components for any fiscal reform programs, but they also require a long-term effort and a continuing level of commitment. Serious consideration should be given to providing additional funding for these programs, to ensure fiscal stability for the GOM in future at both the national and local level, and thus provide the essential fiscal infrastructure for a market economy.

SO 1.3 Accelerated development and growth of private enterprises

This strategic objective encompasses the very broad range of objectives and activities needed to accelerate the growth of the private sector. Results depend heavily on success in the complementary SOs of privatization, financial sector and fiscal policy development. Impressive progress in those SOs has been complemented by a mix of results in this one, largely because funding constraints have prevented the start of a number of key activities. Overall, USAID activities to achieve the objective of SO 1.3 can be categorized into those that directly assist enterprises and those that establish an enabling environment for them.

1. Performance Analysis

Objective: Accelerated Development and Growth of Private Enterprises **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** Moldova			
RESULT NAME: Accelerated development and growth of private enterprises			
INDICATOR: Private sector firms operating and generating employment			
UNIT OF MEASURE: percent increase	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: DAI/ Ministry of Statistics	1995		15,642 (0%)
INDICATOR DESCRIPTION: annual percent increase of registered firms over baseline	1996	5 (T)	310
COMMENTS: There was a huge increase in registration of firms in 1996, many of which existed in 1995 or before because	1997	10	
	1998	15	
	1999	20	

The indicator for the Strategic Objective is **Private sector firms operating and generating employment.** In 1995, there were 15, 642 legally registered firms with a 5 percent increase projected for 1996. The actual 1996 result was an increase of 310 percent for a total of 48,557 legally registered firms (both agricultural and non-agricultural). According to the EU-TACIS publication "Moldovan Economic Trends" the rise in number of new enterprises registered in 1996 was partly due to the Constitutional Court decision of February 1996 resulting in the registration of about 37,300 individual farms in 1996 compared with 3,600 in 1995. Given that the rush of registrations was a one time event, the indicator should not be considered reliable this year but is expected to give more useful information on the direction of private enterprise growth in the future.

IR 1.3.1: Wide availability and flow of business-related information and services

The indicator for this IR is **Circulation of business periodicals in Moldova** and we have just started to monitor it this year at 8,000 copies circulated. We expect a 5 percent increase in the number of printed copies of this top business periodical next year due to a number of

USAID-funded activities. One of them, the NewBizNet activity provides support to a Business Service Center (currently with 215 active members) connected to a central database in Chisinau with Internet access. The Center is also linked with a network of Ukrainian business centers. The fees from the business advisory services provided by the Business Service Center generated over 90 percent of its income, and is a solid indicator that there is market demand for information.

IR 1.3.1.1: Growth of business management consulting industry

This IR focuses on the development of a business management consulting industry. The potential demand for management consulting services is enormous in the post-privatization period but given the small size of the Moldova market, it is quite likely that none of the international consulting firms will deem it economical to open branches in Chisinau, Moldova. Thus, the growth of local consulting firms is essential if both start ups and privatized companies are to succeed.

The first indicator for this IR is the increase in the number of registered management consulting firms. From the data provided, it appears that the industry is flourishing in Moldova. Since this is a late addition to the indicators, no target was set for 1996. However, in the course of 1996, the number increased from 45 to 74. The reader should be cautioned about the validity of the sixty four percent increase. Some of these firms seek registration as a front for other operations. Only ten to fifteen percent of the firms registered with the Chamber of Commerce of Moldova may indeed be operating as management consulting firms. Five of the six consulting firms receiving technical assistance under the USAID-supported effort (see below) are registered with the Chamber. In the future, we may seek a more accurate measure of the industry.

A second indicator reflects a USAID-funded effort to develop a management consulting industry. In November 1995, USAID initiated a pilot capacity-building activity in the field of business consulting services, currently in its second and final phase. The objective is to develop the capabilities of six management consulting firms and of management trainee consultants to provide post-privatization restructuring assistance to privatized enterprises in Moldova. The thrust of this activity is to provide "on-the-job" training provided to trainees through execution of consulting engagements by assisting privatized enterprises with specific restructuring efforts in selected areas.

The pilot phase entailed technical assistance to 25 privatized enterprises. In the pilot phase, no paid engagements were sought or obtained and the target for 1996 was zero.

The "roll out" phase, begun in September, 1996, required the USAID contractor to support six management consulting firms in the execution of 40 paid consulting engagements (CEs). Through April, 1997, a total of 58 consulting engagements have been signed of which 38 engagements have either been completed or near completion. The consulting engagements are focused in four areas: marketing, management, accounting, and financial analysis. USAID assistance will conclude in October 1997.

IR 1.3.2: Legal, regulatory and political environment conducive to sustainable enterprise growth

Objective: Accelerated Development and Growth of Private Enterprises **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** Moldova			
RESULT NAME: IR 1.3.2: Legal, regulatory and political environment conducive to sustainable enterprise growth.			
INDICATOR: Direct foreign investment in Moldova			
UNIT OF MEASURE: cumulative dollar (millions)	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: Ministry of Statistics, MOJ	1995		22,9
INDICATOR DESCRIPTION: total value of cumulative direct foreign investment	1996	---	63,5
COMMENTS:	1997		
	1998		
	1999		

USAID currently has relatively few activities in this area although substantial resources are being targeted to supporting other SOs critical to creating a commercially viable environment supportive of new business start-up (e.g., privatization, financial markets, and fiscal reform).

To assess progress, this IR seeks to report on the level of direct foreign investment (FDI) in Moldova. (This indicator was recently added and therefore 1996 serves as the baseline year.) The National Bank of Moldova reports FDI accelerating: it was $23 million in 1995 (exclusive of asset transfers to Russia) and $41 million in 1996. Despite the acceleration, the absolute value is still low and indicates that Moldova's business environment will require continued support in coming years.

In 1996, an assessment of the status of commercial law in Moldova was made. This assessment concluded that there is a generally recognized need for commercial law reform in Moldova as development of the relevant laws is disorganized and confused. Though a great number of laws have been and continue to be enacted, a framework for this legislative activity and an understanding of the commercial needs underlying the legislation are lacking. Moreover, the drafting has been casual and hasty, which has contributed to the enactment of poor quality legislation.

IR 1.3.2.1: Commercial legal system developed

Although there has been little direct work in this area to date, and targets were nil for 1996, work will begin this summer and continue at least into 1999. The initial focus will be to build the capacity within the relevant portions of the Moldovan Government to draft coherent commercial legislation that is compatible with and promotes a market economy.

IR 1.3.2.2: International accounting standards adopted

This IR monitors progress in adopting and issuing international accounting standards together with the growth and development of the Moldovan accounting and auditing profession. Three indicators address these issues.

The first two indicators measure the development of the accounting profession. The Association of Professional Accountants and Auditors was legally registered in August 1996 and was the first self-regulatory organization (SRO) of its kind established in the FSU. Approximately 200 members joined the Association by the end of 1996.Various committees--including legal, public relations, standards, ethics, training and education--have been established and the first level of a certification examination was in the process of being developed. The Association continues to work with a working group spearheaded by the Ministry of Finance in developing and disseminating International Accounting Standards (IAS).

As mentioned, membership in the Association of Moldovan Accountants and Auditors of the Republic of Moldova reached 200 in 1996, whereas we did not expect any until 1997. In addition, the first group of members of the Association sat for the first level of the certification examination in March, 1997; at least two more examinations will be given in the next year. Therefore, the expectation is that the level of professionalism in the accounting and auditing professions will increase. As increasing market reforms occur in the region, we expect accounting reform will become a stimulus to increased transparency in financial documents and transactions.

No progress on the third indicator is expected till 1998 when enterprises issuing financial statements in conformity with IAS will be listed on the Moldova Stock Exchange (MSE). It is expected that sometime in 1997 the Ministry of Finance will adopt and publish its IAS with enforcement to begin in 1998. As noted in the SO 1.4 narrative, the MSE has three listing tiers with differing disclosure requirements. These disclosure requirements have to do with the level of statutory capital, number of shareholders, level of profits, and the need to issue audited financial statements. It is these disclosure requirements which keep most enterprises from being listed, registered or trading on the exchange due to their concerns about the transparency of their activities, as well as the financial cost of issuing audited financial statements.

IR 1.3.2.4: Corporate governance standards followed

To date, 70 Moldovan companies have filed annual reports with Moldova's securities commission compared to our target of 10. This is an important development in the effort to assure the transparency of corporate performance and decisions to shareholders and investors.

IR 1.3.3: Selected agricultural joint ventures created

OBJECTIVE: Accelerated Development and Growth of Private Enterprises **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** Moldova			
RESULT NAME: IR 1.3.3: Selected agricultural joint ventures created			
INDICATOR: Number of new joint ventures created through FSRP			
UNIT OF MEASURE: cumulative number	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: FSRP implementor, Enterprise Fund	1995	a)	0 (B)
INDICATOR DESCRIPTION: US/Moldovan joint ventures: a) Farm Service Centers; and b) Ag. Processing Enterprises	1996	1 (T)	0
	1997	2	
	1998	3	
	1999	3	
COMMENTS:	1995	b)	1 (B)
	1996	2 (T)	0
	1997	4	
	1998	8	
	1999	12	

This IR measures the establishment of joint ventures of U.S. agribusinesses with their Moldovan partners. A USAID grantee was given responsibility for this effort in early 1996, but did not set up its office or assign a full time advisor until July. The target for 1996 was one farm service center and two processing enterprises A fairly active program is now underway, but no partnerships were initiated in 1996.The first was started in early 1997, and others are in the pipeline. In order to encourage U.S. business to invest in Moldova, the current partnership program provides U.S. companies a maximum of $500,000 to establish a business, if the U.S. partner matches at least 2.5 times this amount. USAID funds are used primarily for training, consulting, and limited commodity support.

IR 1.3.4: Venture capital investment supplied

Objective: Accelerated Development and Growth of Private Enterprises **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** Moldova			
RESULT NAME: IR 1.3.5: Venture capital investment supplied			
INDICATOR: Amount of venture equity or debt supplied to Moldovan businesses			
UNIT OF MEASURE: $ million (cumulative)	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: WestNIS Enterprise Fund	1995		0 (B)
INDICATOR DESCRIPTION: $ investment in Moldovan companies by WestNIS Enterprise Fund	1996	0 (T)	3.01
	1997	3.0	
COMMENTS:	1998	6.0	
	1999	8.0	

This indicator tracks investment by the West NIS Enterprise Fund. Equity investments and leases extended to date total $3.01 million. Though no target was set for 1996, investments to date already slightly exceed the cumulative target of $3.0 million set for 1997.

2. Expected Progress through FY 1999 and Management Actions

We anticipate continuing our efforts to develop business information and services through the full period of the Strategy. Although activities to develop indigenous business consultants and consulting firms will end with FY 1997 funding, funding for the NewBizNet project and the business training and information services it provides will continue through FY 1999.

A new push to develop commercial law will begin this summer. Priorities will be established at that time, and commercial law development supported each fiscal year through FY 1999. Support for adoption of international standards for corporate accounting will also continue through FY 1999. At the end of that year, we anticipate that the Association of Accountants' membership will have increased to 1,000 individuals, that the Association will be totally self-regulatory and self-financing, and that internationally-acceptable financial statements from Moldovan firms will be widely available and relied upon by domestic and foreign investors. USAID support for capital markets development is expected to stop after FY98 (see SO 1.4), but continued accounting development activities will assist in the financial disclosure aspects of improving corporate governance.

Support for joint venture agribusiness partnerships will continue through the period of the Strategy, albeit with constraints (see below). Support for venture capital through the West NIS Enterprise fund will also continue.

Strategic Objective 1.3. Resource Request

FY 97	FY 98	FY 99
2,050	12,650	10,650

3. Funding Constraints

The principal constraint will be in FY 1998 in funding for agribusiness joint ventures. The level available in that year will be adequate for only 2-3 partnerships even though the pipeline of prospective partnerships is increasing. Since U.S. partners must invest at least 2.5 times the AID investment, and some will clearly not invest without AID encouragement, private investment in Moldova may be reduced.

4. PFF: Regional Credit and Investment Programs

The Regional Credit and Investment initiative will allow USAID to address several important constraints to accelerating the growth and development of private enterprises. Development of small business and microenterprise finance ($2.0 million), mobilization of agricultural credit and investment ($2.0 million), and a new effort to develop a mortgage market for property and land (also $2.0 million) appear most important at this time.

PFF Initiatives Resource Request (SO 1.3)

FY 97	FY 98	FY 99

SO 1.4 More competitive and market-responsive private financial sector

In 1996, program performance was not affected by significant external factors. Although a new government was elected, the commitment to financial stabilization was not altered and the leadership of the central bank is independent from parliamentary gyrations. The one negative effect of the change in government is that important legislation for accounting reform was put on hold. This has delayed the implementation of international accounting reform in the commercial banks by some months.

The overall environment for the banking sector in 1996 was similar to 1995 with growth falling. Stabilization policies continue to be on track for IMF programs and inflation decelerated to 15 percent, down from 23.8 percent in 1995. The Bank Supervision Department at the National Bank of Moldova is one of the more progressive in the region.

This SO also encompasses the critical performance of the Moldova capital markets. For most of 1996, the market was stagnant; however, in early 1997 signs appeared to indicate that it is poised for a new stage of development. Among other issues, the liquidity of the market and the level of trading activity was affected by delays in the completion of the mass privatization program, and by the fragile financial viability of the privatized enterprises as reflected by the market value of shares, and by resistance by the private sector to disclose financial information resulting in "off-exchange trades".

It should also be noted that 1996, and possibly 1997, may be regarded as "transition" years. During the former, the people of Moldova readied themselves for their presidential election, and during the latter, the new government may find itself in a state of flux in anticipation of the parliamentary elections in 1998. This environment has, and undoubtedly will continue to have, a significant impact on the passage of key pieces of legislation needed to support further development of the capital market institutions. Irrespective of USAID efforts to prevent delays, program implementation experienced some adjustment as a new contractor assumed primary responsibility for this aspect of the work.

1. Performance Analysis

Performance in 1996 in the financial sector was more or less in line with expectations, with one exception which will be discussed below. This can be summarized as reasonable progress and indicator targets were either exceeded or basically met. In the capital markets arena, targets for 1996 were not determined in time to measure progress from the proceeding year, although this deficiency has now been corrected for the remaining years of the performance indicators.

OBJECTIVE: SO 1.4: A More Competitive and Market Responsive Private Financial Sector APPROVED: June 1996 COUNTRY/ORGANIZATION: USAID/Kyiv			
RESULT NAME: SO 1.4: A more competitive and market responsive private financial sector			
INDICATOR: Increased private sector investment			
UNIT OF MEASURE: percentage	YEAR	PLANNED	ACTUAL
SOURCE: NBM Statistical Dept. (Auriel Margeneariu)	1995		35 (B)
INDICATOR DESCRIPTION: Share of total commercial bank credits to private enterprises and households as a percentage of total bank credits	1996	38 (T)	45
	1997	50	
	1998	55	
COMMENTS:	1999	60	

Starting with the overall objective, the expectation was for a small increase in commercial bank credits to the private sector, relative to total lending. The actual result was a very good 10 percentage point increase. The 1995 baseline was 35%; the 1996 target was 38%, and the actual was 45%. There are two things going on here. First, the share of the state sector is shrinking, and second, as growth accelerates private businesses become more interested in expansion and becoming part of the formal financial sector.

IR 1.4.1: Market-oriented private banking sector developed

OBJECTIVE: SO 1.4: A More Competitive and Market Responsive Private Financial Sector APPROVED: June 1996 COUNTRY/ORGANIZATION: USAID/Kyiv			
RESULT NAME: IR 1.4.1: Market-oriented private banking sector developed			
INDICATOR: Role of total assets of former state banks decreases relative to new private banks			
UNIT OF MEASURE: percentage	YEAR	PLANNED	ACTUAL
SOURCE: NBM: Bank Supervision Dept.	1995		70 (B)
INDICATOR DESCRIPTION: Total assets of four formerly state owned banks relative to total assets of banking system declines (Agroind Bank, Banca Sociala, Moldincon Bank, Savings Bank)	1996	65 (T)	67
	1997	62	
	1998	57	
COMMENTS:	1999	52	

The next indicator, **Role of total assets of former state banks decreases relative to new private banks** is a gauge of the development of a market-oriented private banking sector. It is measured by the state banks' percentage of the total assets in the banking system. As a private banking sector develops, the role of the four former state owned banks should decrease. We expected the percentage to drop from 70% in 1995 to 65% and the actual was 67%, two percentage points below target. The overall projections for the next few years show a conservative time series. It is likely, however, in the next two years, once the banking system has shaken out its weakest performers and economic growth starts in earnest, that there will be a substantial upward spike in the asset share of private banks.

IR 1.4.1.1: Financial infrastructure promotes confidence in the banking system

The heart of AID's work in Moldova in this area has to do with the development of the financial infrastructure. The notion is that these basic building blocks have to be in place in order to promote confidence in the banking system. As a proxy for measuring increasing public confidence in the banking system a typical measure used here is **Share of deposits in total bank funding increases**. With public confidence, deposits become an increasingly larger share of total bank funding (the alternative being borrowing from the NBM). The result was nearly on target as deposits increased their relative share by 3 percentage points. The 1995 baseline was 63%, the target was 67%, and the actual result was 66%.

Subcomponents of the overall measure of infrastructure development are IR 1.4.1.1.1 through IR 1.4.1.1.3. The first one concerns accounting reform. There is a large USAID project to convert the banking system to international accounting standards, which has been in place since mid-1995. The expectation, as noted earlier, was that the commercial banks would be officially converted by the end of 1996. One thing should be said about this target. The idea was to set a strict deadline so that there would be a tension to accomplish this goal. The idea was not to set it so soon as to undermine its credibility, but not to set it too far in the future to remove any tension to get it done. In virtually every country in the region the IAS has gone much more slowly than originally projected and so some slippage is not a cause for concern. In the specific case of Moldova, the situation is complicated because there has been a delay in passing tax reform legislation which essentially authorizes the banks to switch to IAS (without this the banks would have to keep two sets of books). At the current time the transition to IAS is set for the autumn of 1997. This is within the range of the acceptable. However, slippage past 1997, without very good reason, would be a cause for concern.

An improvement in banking supervision IR 1.4.1.1.2, is a difficult gauge to measure, since it is a judgment. The most common approach is to look at the regularity of on-site inspections. However, as is well known, it is not the number but the quality that matters. For Moldova the proxy chosen was the **NBM Bank Supervision Department's average composite ranking of banks**. One would expect that as the system is culled of problem banks, and the basic NBM regulations on such basic issues as capital adequacy and lending to one borrower are institutionalized, the overall quality should gradually improve. In fact, 1996 saw a large improvement in this subjective index, exceeding forecasts, because of the commitment of the NBM Bank Supervision Department to forthrightly weed out the problem banks and put the nonviable entities in receivership. On a scale of 1 (best) to 5, the baseline 1995 rating was 3.6 and the expected target was 3.3. in 1996. The actual was 2.9. Hence/forth, after this large jump, there will be a smaller number of problem banks and the improvement in the quality index will be more gradual, reflecting improvement in bank operations because of growing competition in the system. The off-site supervision component, which is another module in AID assistance to the NBM, Bank Supervision Department, is on track in a mechanical sense. However, the implementation of a meaningful early warning system is contingent on the conversion of the commercial banking system to International Accounting Standards this year.

IR 1.4.1.2: Increase in savings mobilization through the banking system

The success of developing a market-oriented banking system will be signaled by an increase in financial intermediation. (The formal financial sector intermediates between the society's savers and borrowers and uses interest rates to allocate financial resources efficiently. The measure shown here under IR 1.4.1.2 is the standard measure of increased financial intermediation -- **currency plus demand deposits plus time deposit as a percentage of GDP (M2/GDP)**. All the countries in this region, in the wake of hyperinflation, saw a substantial reduction in this financial intermediation measure. Now that the Moldovan economy has stabilized the expectation is that financial intermediation will increase and this ratio will rise. In 1996 a small rise was forecast, despite the large deceleration in inflation because of downward stickiness in expectations. Because the government had no track record, there was a credibility gap between the deceleration of inflation and the return of confidence in the banking system, and the public's willingness to place funds in banks. Although the time path set out in the series takes a conservative approach and shows a gradual increase, as growth in the economy picks up it is possible that financial intermediation could proceed apace. We set a target of a jump from 13% to 16% and the banking system came out on target at 16%. The 24 percent M2/GDP ratio projected for 1999 is still much below the result already occurring in some of the more advanced Central European countries.

IR 1.4.1.3: Increased competition in the banking system

The next indicator, **Fall in intermediation spread** (difference between lending and borrowing interest rates) is a puzzle. In all the countries of the region the enormous differences in the spread is how banks have enjoyed dizzying profits. The outcome shows a 22 percentage point drop in the intermediation spread between 1995 at 35% and 1996 at 13%, way below our 25% target. This spike does not lend itself to a good explanation in terms of increased competition. While certainly a factor, it should not explain this magnitude of change. What is probably being picked up here is primarily an arithmetic change. As both borrowing and lending rates dropped, the former dropped more quickly than the latter because both the difference in the relative levels (deposit rates are held back by the oligopolistic structure of banking in these countries) and thus the spread narrowed a great deal. Thus, while the trend is correct, the actual results overstate the reality. However, in subsequent years this should be a better indicator because inflation now has reached a relatively low level and interest rates should be more stable.

IR 1.4.3: Transparent and open securities system established

OBJECTIVE: SO 1.4: A More Competitive and Market Responsive Private Financial Sector **APPROVED:** June 1996 **COUNTRY/ORGANIZATION:** USAID/Kyiv			
RESULT NAME: IR 1.4.3: Transparent and open securities system established			
INDICATOR: Total corporate securities market capitalization			
UNIT OF MEASURE: dollar	**YEAR**	**PLANNED**	**ACTUAL**
SOURCE: Securities Commission and Stock Exchange	1995		8.5 mln (B) (6 months)
INDICATOR DESCRIPTION: sum of the equity values of all the listed companies that have traded at least once on a stock exchange or in organized market in the year	1996	--	6.1 mln
	1997	7.7 mln	
COMMENTS:	1998	8.6 mln	
	1999	9.4 mln	

During the past three years, virtually all major capital market institutions have been established. These are: an independent securities commission, the Moldova Stock Exchange (MSE), a broker-dealer network, independent share registrars, early forms of traditional investment funds, and the foundation of a broad-based legal and regulatory framework encompassing omnibus securities, joint stock company and investment fund laws.

The indicator chosen for this intermediate result seeks to measure the development and growth of the securities market reflected by the financial viability of the enterprises trading on the Exchange, and the public confidence in capital markets institutions. The MSE was inaugurated June, 1995, with six companies listed providing us with a baseline value of $8.5 million in equities traded. During this initial phase the volume of trades was relatively low and, for the most part, market prices were at or near the nominal or par value of the shares traded.

At the end of 1996, a total of 10 enterprises were listed for trading on the MSE reflecting a securities market capitalization of $6.1 million. The decline from the baseline value is indicative of what often occurs in emerging markets where initially trades occur at nominal or par value. This drop is also a reflection of the inflated pricing and unrealistic nominal values assigned to enterprises during the mass privatization program.

This intermediate result should be viewed together with **IR 1.4.2.3. "Active and open trading of shares on the MSE."** The indicators of these two IRs provide greater insight into the development of the securities market by highlighting the trends in the volume of shares traded by listed and unlisted companies.

The MSE has two tiers for listed enterprises and one for registered, but unlisted, enterprises ---all of which have differing disclosure requirements. These disclosure requirements have to do with the level of statutory capital, number of shareholders, level of profits, and audited financial statements. The two tiers were created knowing full well that in the initial stages of development of this emerging market, enterprises would have difficulty complying with these requirements and would resist them. Nevertheless, expectations are that in time these difficulties will be overcome.

At the end of 1996, only ten companies had met the specific listing requirements. Though 1996 is regarded as a dormant period for the Exchange, early 1997 reports appear to signal a development phase of the market. In the January - March 1997 period, transactions valued at more than $7.5 million were negotiated on the Exchange by 55 companies. It is too soon to determine whether this is a trend or a spike in the volume of trades. There are reasons for the low 1996 trading volumes and the initial 1997 upswing: 1) legislative delays slowed down the wrap-up of the mass privatization program; 2) investment funds have now completed the second issuance of shares which enabled them to start trading blocks of shares out of their own portfolios; and 3) in the post-privatization period the process of redistribution of property is accelerated, and new effective private owners can legally acquire blocks of shares to concentrate their holdings. Finally, a transaction tax which was greatly resisted by market participants has now been rescinded.

It must be noted that 60 percent of the trading volume in Moldova occurs off-the-exchange through independent registrars acting as brokers. To address this issue, USAID, through its contractor, will be providing continuing support to the MSE and Moldova's Securities Commission (SCSM) to restrict the activities of registrars, require greater transparency and channel nearly all securities transactions through the MSE.

The critical enforcement and monitoring role of the SCSM is noted in **IR1.4.3.1.** The SCSM is supported by a highly-skilled and trained USAID-funded Capital Markets Monitoring Unit (CMMU). The CMMU provides technical and administrative support to the SCSM through monitoring of compliance of market participants with existing laws and regulations. As noted in the performance data, the SCSM, based on CMMU recommendations, took multiple enforcement actions. These included issuing 10 license suspensions of broker-dealers, and five license suspensions of independent share registrars for not maintaining current share registries, among others. The SCSM only has authority to issue warnings or suspend licenses; the enforcement of fines is left to the court system. However, the legal capabilities of the court system are an inhibiting factor. Strengthening of enforcement capabilities and continued staff training of the SCSM will be a critical focus of 1997 efforts.

2. Expected Progress Through FY 1999 and Management Actions

As noted earlier, in contrast to other former Soviet countries, Moldova is making important strides in structural reform in the banking sector. If the economy begins to grow again, one can expect expansion of the banks' balance sheets, for the most part, to take place in a healthy way. Over the next two years we would expect to see:

- Development of a professional bank supervision department at the National Bank of Moldova, with the different functions operating in an integrated way.

- The NBM continuing to take aggressive actions in closing insolvent banks and taking remedial actions with banks which develop liquidity problem.

- The development of a regulatory framework to complement the good banking law passed in 1996.

- The imposition of international accounting standards (IAS) followed by the top tier of banks moving more forthrightly on upgrading their internal controls (using the new information gained by IAS in an efficient fashion).

The main risk to this rather optimistic scenario is the macro risk that the economy, after a long retrenchment, does not begin to grow again. The bottom line is that in a depressed economy it is difficult to build a safe and sound banking system because of the difficulty of finding sound business opportunities.

In the capital markets arena, continued USAID assistance in 1997 and 1998 will focus on: 1) ensuring the commercial viability of key infrastructure institutions, i.e., the MSE, the SCSM, and the network of broker-dealers; 2) completing the full transition of voucher funds to traditional or alternative financial intermediaries for all of the ten current "investment fund" pilots; and 3) drafting of all supporting legislative and regulatory documentation relating to the MSE and SCSM operations, and voucher funds to protect investors and help secure integrity of the capital markets infrastructure and participants. We anticipate ending USAID assistance in capital markets development by FY 99.

Strategic Objective 1.4 Resource Request

FY 97	FY 98	FY 99
6,000	2,650	1,250

SO 1.5 A more economically sustainable and environmentally sound gas and electric industry

Unreliable electricity and heat system have the potential to impede Moldova's economic transition. Energy production and consumption are extremely inefficient. Electricity production and gas transmission are very wasteful. Use of energy by industries, agricultural sector and residences is inefficient due to inadequate technology, metering, and collections. The artificially low price structure creates disincentives to efficient energy use.

Moldova's energy problems are considerable:

- State owned energy suppliers (including Moldenergo and Moldovagas) tolerate non-payment in response to political pressure;

- The government assumption of arrears encourages non-payment and lack of effort to raise and collect tariffs by the companies; and

- The lack of independent regulation contributes to uneconomic pricing and consequent disinvestment in the systems and consumers wasting energy.

The GOM has begun to recognize the depth of its problems. Government Resolution 478 in September, 1996 ordered development of a plan for economic restructuring of the energy sector, initiation of energy price increases, development of a new method for regulation of electricity, gas and heat prices, improvement of the social safety net including targeting households in need with the higher energy bills, and movement to settle payment arrears.

1. Performance Analysis

Energy sector restructuring is expected to move towards demonopolization and privatization and include transfer to the private sector of the role of importation and supply of oil products, gas and electricity. Regulation of the sector is expected to move toward establishment of a transparent, predictable regulatory regime, possibly a licensing approach administered by a professional entity. The energy sector in Moldova has been long studied by USAID and the World Bank. USAID's efforts are expected to begin in FY97 or early FY98. Indicators for this SO have been established, however, baseline and target data will be set during the early stages of program implementation.

The proposed USAID technical assistance objectives are indicated below.

- Regulatory development: The regulatory development work will include advice, analysis and preparation of key documents required to achieve a functioning independent regulatory body and limited advice on the laws, existing or proposed, affecting the energy sector corporate re-organization and functioning.

- Moldenergo Implementation of Reform Plan: The work will include restructuring, corporate re-organization, electricity market definition and establishment, commercialization and preparation for privatization.

- Moldovagas Implementation of Reform Plan: The work will include restructuring, (including aggregation of distribution companies), market development, corporate re-organization, commercialization and preparation for privatization.

There are four Intermediate Results required to achieve this Strategic Objective. These Intermediate Results are indicated below.

IR 1.5.1: Fully functional National Electricity Regulatory Commission (NERC). Licences and tariffs will be set by the NERC in order to assure that the companies are profitable and operating according to basic standards.

IR 1.5.2: More profitable electrical energy system. Energy system profits will be determined based on both revenue received and operating expenses, including debt servicing. There are two intermediate results that will lead to a more profitable electrical system:

- Improved efficiency of electrical energy system. (IR 1.5.2.1); and
- Increased revenue generation from customers (IR 1.5.2.2).

IR 1.5.3: Increased profitability of Moldovagas. There are two intermediate results that will ensure the profitability of Moldovagas:

- Improved efficiency of Moldovagas gas system (IR 1.5.3.1); and
- Increased revenue generation from customers (IR 1.5.3.2).

IR 1.5.4: Supportive policy environment. The Moldovan energy sector will conduct reforms necessary as defined by the World Bank.

2. Expected Progress Through FY 1999 and Management Actions

The increase in the efficiency of the energy sector will be an important future achievement as it will ultimately lead to the sector's commercial sustainability. One measure of the program's success will be a reduction of government subsidies. However, performance will take into account the need for an energy safety net for certain categories of delinquent customers (e.g., hospitals, water supply agencies).

USAID expects to make progress in assisting Moldovagas and Moldenergo to restructure, commercialize and privatize. Re-orienting these companies into effective and profitable operations is an important step towards the elimination of government influence on gas/electricity supply business.

Moldova is now entirely dependent on Russia and Turkmenistan for its energy requirements. Working in concert with its development partners, USAID is optimistic that it can assist the

Moldovans to develop an independent, profitable and sustainable energy sector.

Strategic Objective 1.5 Resource Request

FY 97	FY 98	FY 99
0	1,500	1,100

Special Initiatives

Humanitarian Assistance

During Moldova's transition to a market economy, the government, faced with difficult choices about the use of its very limited resources, has markedly reduced funding for its social services. As a result, an emergency situation has ensued and many vulnerable members of society are suffering.

The widespread suffering seriously threatens popular support for economic reform in Moldova. It increases the cynicism of citizens, and decreases politicians' willingness to take strong measures essential for further economic progress. USAID's support for reducing human suffering thus closely complements our programs to support the economic transition, and to assist the government to restructure the social services it provides with public means. Activities conducted under this special initiative both alleviate immediate suffering and, by providing humanitarian assistance goods to social service NGOs, help build a sustainable network of indigenous private non-profit organizations that provides social services to vulnerable populations which the government no longer has the means to reach.

- Since 1992, USAID has provided over $70 million worth of technical and humanitarian assistance in support of Moldova's democratic, economic and social transition.

- Since 1994, the U.S. government has conducted eleven deliveries of humanitarian assistance to Moldova, consisting of sixty truckload-equivalents valued at over $4 million.

- The U.S. government targeted two deliveries of humanitarian assistance to the most needed regions of Moldova. The first delivery, made summer 1996, consisted of six truckloads of clothing, furniture, and medical items valued at about $370,000, distributed to fourteen medical and social service organizations. The second one, was implemented in March 1997, and consisted of three twelve-meter containers of medical supplies valued at more than $290,000.

Eurasia Foundation

Since 1994, the Eurasia Foundation has awarded approximately sixty small grants in Moldova which total 1,750,000 to support grass-root initiatives which promote small business development, economic education and management training, NGO development and democratic institution building. The Eurasia Foundation is presently supporting twenty organizations in Moldova.

Some of the Eurasia Foundations accomplishments which are supported by USAID are indicated below.

- The Foundation is supporting a series of training seminars on the principles of market economy in several regions of Moldova targeting local governmental officials in charge of economic development.

- In the area of independent mass media and communications, the Foundation supported a number of civic organization to gain access to the world information network. This access has broadened their sources of information and international contacts.

- The Foundation supported the development of an independent journalism center. The center provides media instruction and resource materials for professionals, student and trainers of journalist. As a result, the center has contributed to the independence of the media environment.

Strategic Objective Resource Request

FY 97	FY 98	FY 99
500	2,000	1,000

Medical Partnerships

The Medical Partnership program increases the capacity of Moldovan health care providers by creating institutional and professional linkages between U.S. and Moldovan clinicians. Health care providers include managers, health care professionals and policy analysts. The program addresses health care issues by improving the effectiveness of health care delivery and by strengthening existing health management development programs.
Some of USAID accomplishments to date are indicated below.

- As a result of program activities, the post-operative mortality rate in Moldova was reduced from 18.3 to 8.5.

- The Emergency Medical Services curricula was adopted by the Institute of Continuing Education for Physicians as the core curricula for advances training of feldshers.

- As a result of a comprehensive examination of the U.S. medical education system by the partners, Moldova initiated a medical education reform program. This program focuses on reducing the number of physicians and increasing quality of practice. Currently the medical school admits 400 students which is down from 950 three years ago.

- With USAID assistance, Moldova initiated a family practice residency program for medical students. Family practice offers broader based health care and indicates a movement away from a high specialized, often inefficient system.

Women's Reproductive Health Initiative

WRHI is designed to respond to the high maternal/infant mortality and morbidity in Moldova. Better reproductive health care and greater access to contraceptive alternatives to abortion will reduce the human and financial cost associated with abortion complications. Established in 1995, the WRHI develops model family planning and maternity care services, creates sustainable training in up-to-date reproductive health care technologies and maternity practices, develops public awareness materials, and increases availability of contraceptives to women.

Some of USAID accomplishments to date:

- A cadre of 20 Moldovan trainers was developed in Moldova to provide training to health care workers through out Moldova in family planning.
- A family planning curricula was developed by Moldovan project participants which is being used for in-service training activities through out Moldova.
- A large assessment team completed a review of reproductive health care in Moldova and began large scale project activity in the spring of 1997.