

PD-ABY-335

MOLDOVA

RESULTS REVIEW

AND

RESOURCE REQUEST

USAID/West NIS

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Part I. Factors Affecting Program Performance in Moldova

I. Progress Toward the Transition

Since declaring independence in August 1991, Moldova has adopted an overall program of reforms designed to create strong democratic institutions while fostering financial stabilization and transition to a market-based economy. **Free and fair parliamentary elections were held in 1994, and presidential elections are scheduled for this year.** In addition, an independent media has been established and a small NGO community is developing.

To consolidate the GOM's economic reforms, ambitious targets have been adopted. **Inflation of over 2000 percent in 1992, was reduced to 24 percent in 1995, and is targeted at 15 percent for 1996.** The lower rate contributes to a stable currency and declining interest rates, which in turn contribute to economic and political stabilization.

The USAID program in Moldova is achieving, and in some cases exceeding, the results expected when the program was planned and organized. **Moldova is one of two countries of the Former Soviet Union (FSU) which has completed a mass privatization program.** This is key to attaining the objective of increased transfer of State-owned assets to the private sector. The mass privatization program affected an estimated two-thirds of the non-agricultural economy, including 1140 medium-large scale enterprises, 730 shops and 364 health-care units through popularly-supported auctions that involved about 95 percent of the eligible population. A domestic capital market has been initiated, an important intermediate result in achieving a more competitive and market responsive private financial sector. There are currently 43 investment funds, 11 trust companies, a brokerage system and a stock exchange in place.

Progress is being made on accelerated development and growth of private enterprise through post-privatization interventions. Four domestic consulting firms and 62 private Moldovan consultants are refining restructuring skills by assisting 17 privatized enterprises improve their likelihoods of economic viability. One of those enterprises is a 1700-member farmer association implementing a restructuring plan that senior-level government officials have requested be replicated by USAID in each of Moldova's 40 regions. In addition to the USAID capacity-building effort in restructuring, the GOM State Creditors' Committee (SCC) together with the Enterprise Assistance Agency (AEA) have launched a process of financial and organizational restructuring. Early results from both the USAID and the AEA efforts are encouraging, including the creation of a number of small businesses, improved production efficiency, and a growing ability to meet current charges including tax payments due. Contractors addressing the challenges of land reform and the development of pilot real estate markets have secured government-wide consensus regarding the approach for pricing, selling and registering enterprise lands. That approach is now before the Parliament for approval.

In monetary and fiscal reform, an organic budget system developed by U.S. Treasury advisors has been successfully used by Parliament for a second year, creating the annual budget prior to commencement of each fiscal year. Another resident advisor has guided development of an active securities market. The income tax system is being totally revamped, including a new tax law which was drafted and will be submitted to parliament in late May, and the Ministry of Finance is restructuring to provide improved administration and implementation. Each of these achievements contributes to attaining the objective of increased soundness of fiscal policies and fiscal management practices.

II. Political Developments Affecting Moldova's Transition

The unresolved conflict in the break-away Transdnister region is the most important political issue confronting Moldova today. Although a cease-fire has been in effect since June 15, 1992, and talks between Chisinau and Tiraspol, the capital of the Transdnister region, have continued, Tiraspol has used the time to create the basic structures of an independent country, including the establishment of a "national" bank and issuing its own currency. However, these structures have done little to alleviate the poor economic conditions and poverty in Transdnister, which are much worse than in the rest of Moldova. Negotiations continue over the timing of the withdrawal of the Russian 14th Army, which is acting under U.N. auspices as a peacekeeping force. Disputes have arisen over the ownership and eventual distribution of the 14th Army's equipment, and no timetable for withdrawal has been agreed upon. In addition, it is unknown what the results of the Russian presidential elections in June will have on Tiraspol. One expectation is that a victory by Yeltsin will weaken the resolve of the Transdnister authorities to strive for complete independence of the region.

The U.S. government has made verbal commitments to the GOM and to Tiraspol that the U.S. will provide assistance if and when there is an agreement to maintain the integrity of a united Moldova and the dispute is settled. Therefore, any improvement in the situation is going to have a major impact on the USAID program, starting with an increased demand for resources, since the economy of the Transdnister region is flat on its back.

At present, the region benefits from USAID's program through participation in bank training, business promotion and legal reform activities. Energy sector reform assistance involving audits for energy efficiency and environmental impact will also benefit the region, which is the most heavily industrialized area in Moldova. It also has the potential to supply all of Moldova's energy needs and still be capable of developing energy exports. However, this assistance has been put on hold by the U.S. Ambassador to Moldova pending agreement by both the GOM and Tiraspol that the assistance would benefit all Moldovan citizens.

In addition to the Transdnister dispute, there is also conflict within the GOM on the nature and pace of economic reforms. The largest bloc in the parliament are the Agrarians, a conservative party which is very resistant to agriculture restructuring and land

reform. They control the Ministry of Agriculture and have prevented or slowed real reform in this sector. Although most agricultural enterprises have been privatized, the resulting structures still largely resemble the old collective farms as assets have yet to be distributed. The Agrarians' strongest argument against restructuring the sector is the concern that the large farms now producing fruits and wines for export will be broken up into smaller and economically weaker units, thus changing the commodities that are produced and resulting in a decrease in overall production. They also claim that villages cannot employ all the people who currently work in collective farms, and restructuring could potentially create mass unemployment.

The conflict within the GOM, in particular between President Snegur and the Parliament, recently escalated into a major confrontation over the issue of who controls the cabinet. The president attempted to fire the Defense Minister and replace him with one more to Snegur's liking. However, according to the Supreme Court's interpretation of the Moldovan Constitution, the president exceeded his authority, since the cabinet answers first and foremost to the parliament. The most important and positive development that arose out of this dispute was the willingness of all sides to allow the Supreme Court to settle the issue and to abide by its decision. The issue has subsequently been settled peacefully with the Minister of Defense reinstated, albeit with a much truncated portfolio.

III. Economic Developments Affecting Moldova's Transition

Disruptions associated with the collapse of central planning have resulted in a decline of 60 percent in real GDP since 1990. However, the annual decline was less than three percent in 1995. Donor analyses and several results from enterprise restructuring programs indicate a possibility that industrial production and GDP growth could be positive in 1996.

The lack of domestic energy resources means the country is almost totally dependent upon imports from other NIS states, where prices have risen to world market levels. Although Moldova experienced an 18 percent rise in the value of its exports in 1995, there was a corresponding rise of 19 percent in the cost of imports. Furthermore, 25 percent of the exports were in barter trade to the FSU as payment for imports, particularly energy. The agricultural sector is also highly dependent upon imports for fertilizers and other inputs whose prices have risen sharply. In contrast, Moldovan exports of wine and agricultural products have faced steady price depression in traditional NIS markets due to increasing new western competition. However, there has been a growing shift toward trade with the west, with a 37 percent increase in exports to the EU in 1995 over the previous year.

The annual decreases in real output, combined with real price increases for many tradeable goods, have dramatically reduced disposable income. With revenue collection down, there is reduced operating efficiency in the government and increased capital deterioration through lack of maintenance, exacerbating budgetary pressures.

Despite the economic setbacks which have accompanied extensive reform, the country has made major advances in mass privatization, capital markets development, opening up its trade and foreign exchange regime, enterprise restructuring and fiscal reform. However, three important sectors exert a great deal of influence on the economy:

1. **Import-Dependency for Energy:** Pressure on national and local budgets has become serious, and is expected to continue based on current trends. Energy-related debt and energy expenditure levels will grow, with revenue collections expected to be hard to maintain. National and local governments will remain liable for large energy costs, paying an excessive share of resources for heating. Consolidated budget arrears for electricity were \$16 million in the first quarter of 1996. Energy agency debts to external suppliers continue to mount, leading to pressure on the Government to assume the debt. Unless tariffs are changed to match economic costs of energy, and collections improve dramatically in the near future, direct and indirect charges to the budget for energy will inevitably increase.

The Moldovan economy has not yet adjusted fully to the increase in real prices of all types of energy that has occurred since the breakup of the FSU. Tariffs overall are not yet high enough to achieve cost recovery and a large amount of energy is not paid or accounted for. In the first quarter of 1996, collections for electricity were 71 percent and for heating only 43 percent. Household incomes are in general not yet high enough to pay full costs, and capacity to measure and control energy use (gas, heating) needs to be improved. As a result, the financial condition of the energy utilities is poor; and external energy-related debt (primarily to Russia) was estimated at \$260 million at the end of 1995, and continues to grow. **The energy bill is the biggest single threat to budget sustainability, and thus to government maintenance of the national infrastructure vital to success in promoting economic growth.**

2. **Policy and Technical Environment for Enterprise Restructuring:** Although the mass privatization program has been completed, in many cases the GOM held back as much as 60 percent of the ownership in a given enterprise with the intention to sell its shares for cash during the upcoming cash auction period. Therefore, major assets (such as excess land) cannot be sold without government approval. **The government and Parliament have not yet seen fit to allow enterprises to sell their assets and to retain the sales proceeds to rationalize operations and pay debts.** There is also no acceptance of the idea that prices for assets should be set by the market. A number of enterprises undergoing restructuring are now paying current charges, including their energy bills, but are still subject to disconnection due to human error and infrastructure failings, disrupting the production process and undermining a return to profitability.
3. **Land Reform:** Effective and rapid land reform is absolutely necessary for success in such areas as enterprise restructuring, privatization, capital markets development,

business promotion, agricultural production efficiency, and others. This hotly contested issue is at the heart of economic reform due to the fact that Moldova is primarily an agricultural country. Although privatization of the agricultural sector has proceeded, whether and how to distribute the assets, including land, are still unresolved questions. The private agricultural associations that were formed out of privatized cooperatives hold assets in common, and each member of the association retains a share certificate in the association, but the share is not tied to any specific asset or parcel of land. In addition, lack of land markets has had a stultifying effect on housing privatization and the development of a real estate market. Likewise, the inability of enterprises to sell or mortgage the land on which they are located has limited their ability to raise much needed funds for capital improvements.

IV. Social Developments Affecting Moldova's Transition

Unlike many countries of the FSU that include large ethnic-Russian minorities, Moldova has experienced violent conflict between ethnic Russians in the Transdnister region and the Romanian-speaking majority of Moldovans. Although tempers have cooled, this is likely to remain a major source of tension in the foreseeable future, and will continue to affect the direction and application of U.S. assistance.

Furthermore, the continuing erosion in the quality of life for most Moldovans, and especially the inability of the most vulnerable to cope, is a major impetus for reform. Faced with an unsustainable social protection system, the Government of Moldova has made progress over the past year in targeting social benefits, and thereby increasing revenues and reducing expenditures.

Also driving reform is Moldova's inability to finance improvements in such problems as deteriorating infrastructure, inadequate health care systems, energy brown-outs, and lack of capacity and resources to deal with emergencies. However, the lack of consensus on how to address these problems, and in particular opposition from the Parliament to meaningful social reform, has made it all the more difficult for the country to get back on its feet.

V. Factors Assisting or Impeding Overall Program Performance and Mission Response

The following are major factors impeding or assisting overall program performance and how the USAID program deals with them:

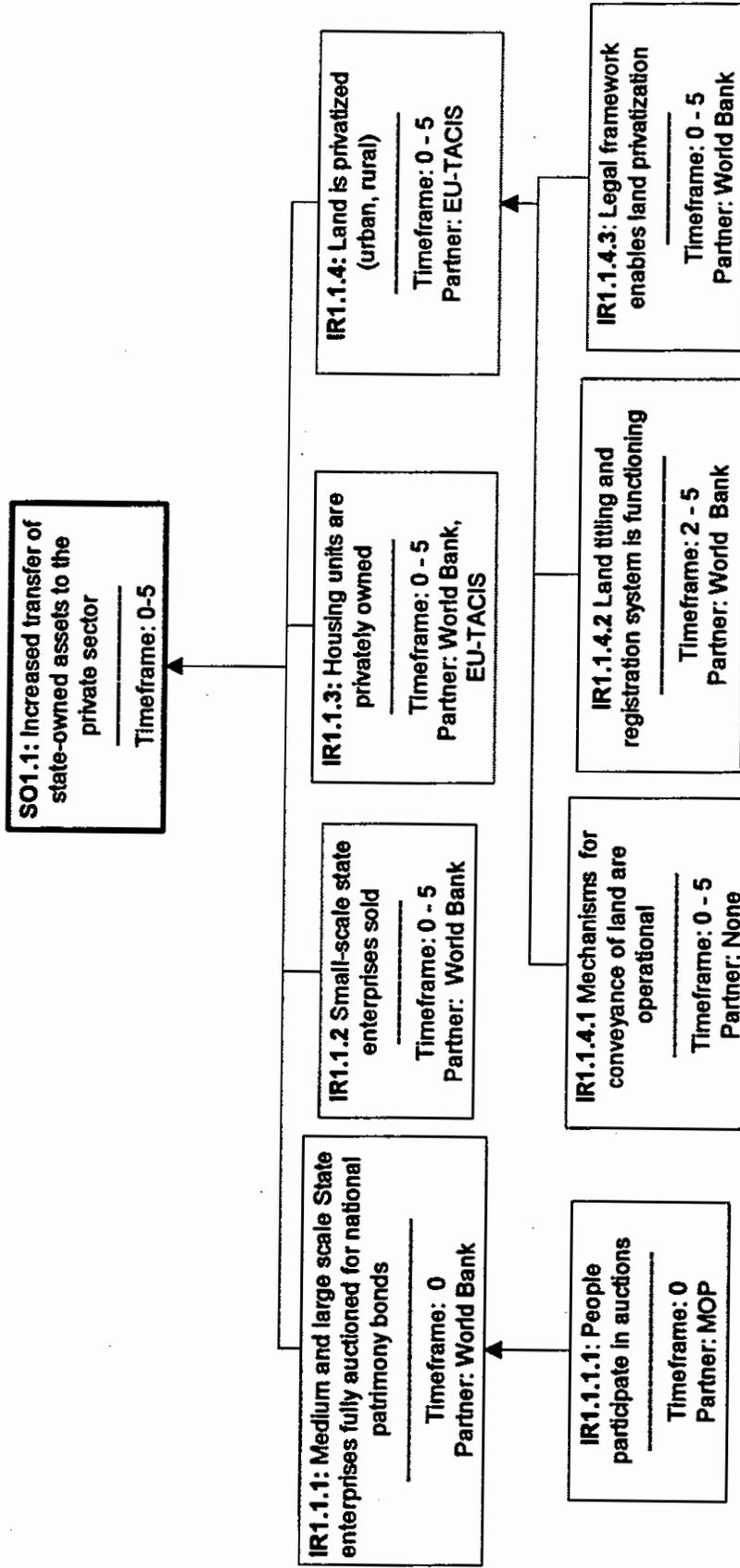
- Import-dependency for energy has put serious pressure on national and local budgets, and based on present trends will continue so in future years. USAID is working with the GOM to develop energy and environmental impact audits for Moldovan industry

in order to improve efficiency and decrease demand. In addition, USAID is cooperating with other key donors in the country and in particular with the World Bank, to provide primary assistance for restructuring the gas industry.

- Both industrial and agro-processing enterprises are involved in restructuring, and early experience has highlighted policy obstacles that are important to address as soon as possible. The USAID program in restructuring is focused on developing analytical capacity within the private sector to determine the needs and manage the process through individual and private approaches. This approach is heavily dependent upon government enactment of a favorable legislation and regulation to create an environment which allows the private sector the greatest amount of reasonable freedom to formulate its own decisions.
- Current progress in land reform is stalled while official powers hotly debate two critical issues most immediately associated with the privatization of land allocated to already-privatized enterprises. Those issues are (1) which unit within the government will have responsibility for managing the actual sale and registration of land, and, (2) the existence of the Law on Normative Prices which earlier established prohibitively high prices for non-agriculture land such that no enterprise has been able to afford to buy the land associated with it even though such permission exists.

VI. Conclusion

Moldova moved quickly to privatize its economy and has largely completed the process it began in 1991. Democratic reforms have strengthened the people's ability to influence national and local policies and services. However, intractable issues remain, chief among them the unresolved status of Transdniester. In addition, vested interests in the agricultural sector have yet to be overcome, and consensus for agricultural and land reform is not widespread. Nonetheless, it appears that the Government is making substantial headway despite these and other constraints and that the international donors and financial institutions are committed to staying the course. The USAID program is playing a major role in enabling the transition at both the national and grassroots levels, with significant progress to report to date.



Part II. Progress Toward Strategic Objective Results Framework and Results Report

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

I. Results Frameworks

Transition Hypothesis/Underlying Rationale

The economy of Moldova now depends upon meeting market demand in an increasingly global, increasingly competitive market economy. Quality, quantity, price, distribution, payment terms and marketing (both knowledge of market demand and promotion) are the key variables that determine the success of any individual enterprise and, as the sum of many enterprises, the economy as a whole. Success in enterprise is tied to the quality of managerial decisions and, as a general rule, the closer managerial personal interests are aligned with those of the enterprise, the better the decision making. One of the major problems of the centrally planned economy was that managers' personal interests were insulated from the economic consequences of their decisions. The real issue with the transfer of state assets to the private sector is to give control to entrepreneurs whose economic well being is directly tied to the effectiveness of those assets. The transfer of assets to the private sector as executed in Moldova does not always translate into a change to more effective leadership any more than a turnover of General Motors stock makes the company any more effective. However, a change to entrepreneurial leadership cannot be effected while the State owns the assets.

Therefore, the transfer of State owned assets to the private sector is a necessary precondition to a change in leadership and at times they do occur simultaneously. To date, 1,142 large and medium scale Moldovan enterprises have been privatized, which, according to the GOM, represents 60% of the industrial assets of the country. Unlike the Russian and Ukrainian privatization programs, the GOM's Privatization Law did not grant preferences to enterprise managers in share allocation. As a result, theoretically, enterprise managers do not have a numerical advantage as shareholders as compared to workers in an enterprise, and restructuring could still lead to a change in enterprise leadership. The transfer of State assets to the private sector is necessary to achieve the objectives of ENI Strategic Assistance Area I: Economic Restructuring.

The assistance program is focussed on four major areas of privatization: 1. Large and medium scale enterprises, 2. Small scale enterprises, 3. Housing units, and 4. Land (both rural and urban). The rationale for the focus on large and medium scale enterprises is the one explained above combined with the benefit to the State of divestiture of unprofitable

enterprises, thus improving the State's fiscal position. The value of the focus on small scale enterprises is that they represent the fastest growing sector of the economy in both dollar volume and employment generation.

Privatization of housing units helps the State reduce its social liability while creating the foundation for private mechanisms to assume previous State responsibilities such as maintenance and care of common areas. For the ordinary citizen, apartment ownership may also be his or her first real stake in the new market economy and a source of savings for investment via mortgage. Urban land titles will open up a real estate market and allow mortgage finance. Privatizing rural land is occurring slowly. As an initial step, 70 collective farms are targeted to be broken up into multiple private holdings this year. For land to become a strong national asset, the land code must be amended to allow its resale by private owners.

Critical Assumptions

One critical assumption is that the GOM will amend the land code by 1989 to allow private owners to resell land. Land will achieve its true productive potential when subjected to market forces. The Mission will track the amendment as an indicator of a legal framework that enables land privatization.

Causal Linkages

The indicator for the strategic objective is private sector GDP as a percentage of total GDP. As the country's productive assets come under private control, the ratio will increase proportionately. There are four sets of intermediate results that will generate the increase: 1. The auction of medium and large scale enterprises for national patrimony bonds, 2. The sale of State-owned small enterprises, 3. Private ownership of housing units, and 4. Land privatization.

IR 1.1.1 Medium and large scale enterprises fully auctioned for national patrimony bonds distributes ownership among private interests and makes it possible for private enterprise to gain control of decision making for the use of productive assets. The GOM's Privatization Law featured three tiers of enterprises scheduled for privatization; 40%, 70% and 100%. For the 328 enterprises privatized at the 40 or 70 percent level, disposal of the state's remaining shares through cash sales to foreign investors was stipulated for 32 enterprises. For 296 enterprises, the method of disposal of the remaining government shares was not specified. The shares of 1,142 enterprises were successfully sold through auctions by the end of 1995. An intermediate result necessary to the success of these auctions is that the people participate in them by redeeming national patrimony bonds for shares (IR 1.1.1.1). There were 3 million original issue bonds; as of the last bond auction in November, 1995, 93% had actually been invested.

IR 1.1.2 Small-scale state enterprises sold will be measured by the number of enterprises

with 40 to 100% control by private investors. Small enterprises show the most promise for closer control by entrepreneurs and faster growth in both GDP and jobs generated.

IR 1.1.3 Housing units are privately owned. Other donors are focusing on the number of units privatized. Private ownership of units and control over the common elements of a residence will lay the foundation for a future private mortgage industry.

IR 1.1.3 The privatization of land will strengthen real estate markets in urban areas and transform both urban and rural land into a more productive asset. The large, inefficient State farms must be restructured and/or broken up into viable, economic units; those must come under private control; and private enterprises must gain title to a substantial percentage of productive land. Only when land is sold in a competitive market will it approach its maximum social and economic utility. There are three sets of intermediate results necessary to achieve IR 1.1.3. They are: mechanisms for conveyance of land are operational (IR 1.1.4.1); land titling and registration system is functioning (IR 1.1.4.2); and the legal framework enables land privatization. Auctions and tenders must take place. Once land is sold, the system for titling and registration must facilitate the option of resale. The legal framework will have to support the sale, titling and registration system, and resale options in order for privatization to achieve its true social and economic benefit to society.

II. Overall Progress to Date

The Republic of Moldova is one of two countries of the Former Soviet Union (FSU) which has completed a mass privatization program, with sixty percent of industrial assets transferred to the private sector. Moldova remains one of the foremost reform-minded countries within the FSU and is now poised to initiate essential market reform programs that will create a business environment to attract both foreign and domestic investment. During the privatization program, two-thirds of the Republic's non-agricultural economy was privatized. The program was extraordinarily popular, with approximately 95 percent of the eligible population participating.

Specific Results Achieved to Date:

- **Medium and large scale State enterprises fully auctioned for national patrimony bonds:** 1,142 medium and large scale enterprises were privatized.
- **Small-scale enterprises sold:** 1,393 small enterprises were sold, including 732 shops and 364 health care and other objects were privatized.
- **Housing units are privately owned:** 77% of total stock of apartments were privatized

III. ENI's Significant Contributions

USAID assistance provided a critical and instrumental role in supporting the Republic of Moldova during the course of its privatization program. The Law on Privatization was adopted by the Moldovan Parliament in July 1991. However, the program did not begin in earnest until February 1994, following Parliamentary elections won by progressive leaders who declared their support for economic reforms, including privatization. Concurrently, the appointment of the Minister of Privatization, a dynamic and energetic reformist leader, signaled Moldova's strong commitment to this process.

USAID provided technical assistance in the corporatization process of small, medium and large enterprises prior to privatization. This assistance entailed the valuation of property subject to privatization; and the performance of open outcry auctions and public tenders of small scale objects and nationwide share subscription auctions for large and medium scale enterprises.

Technical assistance was also instrumental in the creation of the Share Registry Coordination Unit responsible for preparing and consolidating an accurate record of privatized enterprises with more than 300 shareholders. The Share Registry Coordination Unit was subsequently transferred to one of 27 independent share registries to insure safekeeping and maintenance of the records for purposes of corporate governance and dividend issuance.

Specific Results Achieved to Date:

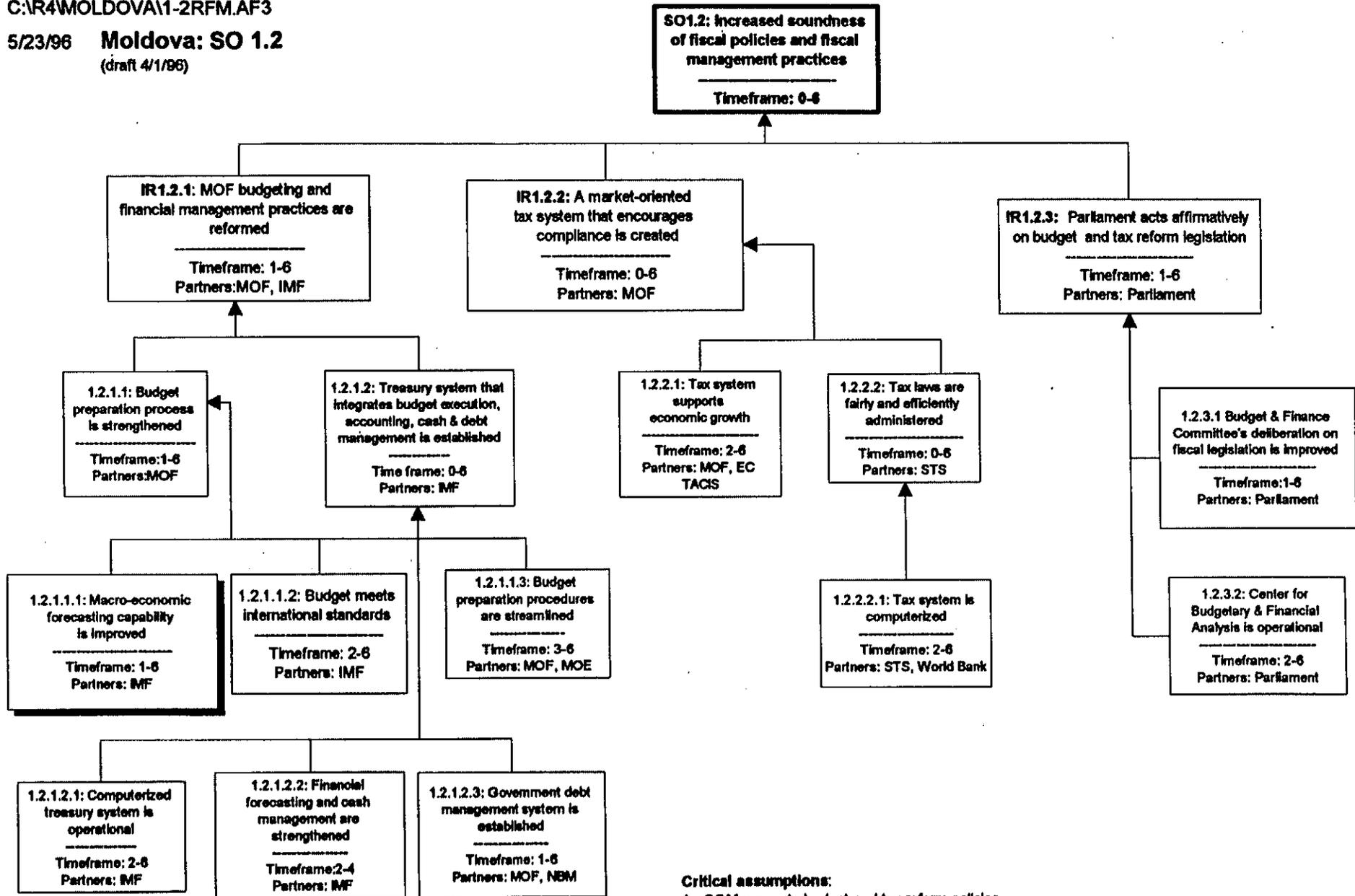
- **Medium and large scale enterprises fully auctioned for national patrimony bonds:** USAID helped to establish 115 bid collection sites nationwide to ensure individual participation and the operation of the national Data Center for Republican Auctions.
- **Small-scale state enterprises sold:** 1,393 small-scale state enterprises were sold through open outcry auctions and public tenders
- **Housing units are privately owned:** According to the GOM, as of March, 1996, 192,000 apartment units have been privatized

IV. Expected Progress in FY 1997 and 1998

USAID assistance will focus on providing technical assistance to the Ministry of Privatization to support cash auctions of the remaining state shares in privatized enterprises.

In addition, USAID will continue to support an integrated strategy for land privatization to include (1) support for privatization of urban and agricultural land; (2) development of

systems to facilitate the issuance and recording of land titles; and (3) the development of a legal and regulatory environment to support these efforts. The objective is to build a broad constituency for market reform through the issuance of land titles in both urban and rural settings. Land Titles will be issued to develop a land and real estate market together with a vibrant private-sector capable of providing supporting services such as mapping, real estate brokers, surveyors, auctioneers, and others.



Critical assumptions:

1. GOM supports budget and tax reform policies
2. NBM continues restrictive monetary policy
3. Privatization continues as projected
4. Budget outcomes are not distorted by unexpected exogenous shocks

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SO 1.2: Increased soundness of fiscal policies and fiscal management practices

I. Results Frameworks

Transition Hypothesis/Underlying Rationale

USAID's program is designed to aid in the development of the fiscal policy and management infrastructure which is essential to the growth of a market economy. Elements of this include (1) sound budgeting and financial management practices, where macroeconomic trends are reliably forecast, revenues accurately estimated and collected, and expenditures efficiently planned and executed; and (2) a market-oriented tax system that is fair and encourages voluntary compliance while supporting economic growth. Achievement of these requires skilled executive management of fiscal policy, usually through a ministry of finance. It also demands (3) a parliament that acts affirmatively on budget and tax reform legislation.

Under the central planning system which existed prior to independence, none of these considerations pertained to any significant degree. The budget was dictated by the central plan: all economic entities belonged to the state, which collected revenues directly from the bank accounts of state-owned enterprises and fed funds to be expended into their expenditure accounts. Furthermore, the Ministry of Finance (MOF) was traditionally a weak institution, far different from similar institutions in Western countries. Although nominally responsible for preparing the budget, in practice it was largely a bookkeeping operation, with economic policy decisions made by the central planning organization, Gosplan. And, of course, the legislative organs were a rubber stamp for the central plan.

The Ministry of Finance in Moldova, however, under an energetic and reform-minded Minister, is making great strides toward becoming a Western-style finance ministry. It has departments responsible for budget, treasury operations, tax policy, tax administration, external and internal debt, and accounting standards.

Development of the market economy is handicapped by the persistence of attitudes and processes carried over from the central planning system. These include a disinclination to take initiative and a tendency to insist that all decisions come from a central authority. Another impediment which especially affects fiscal policy and management is the tendency to treat all data as secret and thus to be guarded closely and not shared even within ministries, much less between them or with outside advisors.

There is no question that a market economy requires the performance of the fiscal policy and management functions of a competent ministry of finance, or its equivalent (i.e., the basic functions are performed by more than one entity and coordinated, as in the U.S. government), and a responsible legislature. Sound budgeting and financial management practices are necessary to ensure the efficient use of those resources retained by the

government for essential public purposes, such as national defense, education and health, environmental protection and a social safety net. A market-oriented tax system that encourages voluntary compliance should provide the resources needed by the government to achieve these public purposes without placing excessive or unfair burdens on particular classes of taxpayers, such as private enterprises, and thus discouraging economic activity. A Parliament that is well-informed and adequately supported should be able to act responsibly and effectively on vital fiscal reform legislation.

Therefore the Mission focused on fiscal reform in order to achieve the objectives of ENI Strategic Assistance Area I: Economic restructuring.

Critical Assumptions

Success in achieving SO 1.2 depends on several critical assumptions, as follows:

1. GOM supports budget and tax reform policies. The most vital need is support for fiscal reform at the top policy levels from which the impetus for action must come. Thus far, such support has been forthcoming, but there is no guarantee that a new administration would follow the same policies.
2. NBM continues restrictive monetary policy. Runaway inflation can make any efforts at fiscal management futile. Thus far Moldova has followed responsible monetary policies and achieved one of the lowest inflation rates in the NIS. Maintenance of such policies is essential for the accomplishment of fiscal reforms, but there is no guarantee that a new NBM administration would follow the same policies. Nor is the independence of the NBM as yet guaranteed.
3. Privatization continues as projected. While privatization provides the GOM with some revenue in the short term, its main benefit is to alleviate strains on the expenditure side of the budget by reducing the amount of subsidies paid by the government to maintain inefficient and unprofitable government enterprises. Ideally, it also provides a means of helping promising enterprises to reconstitute themselves and prosper in the private economy, which also turns them into healthy taxpayers. Should a new administration decide to go slow on privatization, then fiscal reform would be far more difficult.
4. Budget outcomes are not distorted by unexpected exogenous shocks. The Mission strategy cannot anticipate unusual but possible negative shocks to the economy, such as a sudden jump in international oil prices.

Causal Linkages

Since the justification for increasing the soundness of fiscal policies and fiscal management practices is to create the fiscal infrastructure necessary for a market economy, the mission

has focused on actions needed to improve efficiency and confine the activities and resource consumption of the government to essential public purposes.

Three intermediate results are necessary and sufficient to accomplish this: **IR 1.2.1, budgeting and financial management practices are reformed; IR 1.2.2, a market-oriented tax system that encourages compliance is created; and IR 1.2.3, Parliament acts effectively on fiscal reform legislation.**

The first element of the program is the reform of budgeting and financial management practices. IIR 1.2.1.1, strengthening the budget preparation process, consists of improving macroeconomic forecasting capability; streamlining budget preparation procedures by providing clearer guidance and funding targets to ministries in defining priorities and developing their budget requests; and doing budget analysis to improve economy and efficiency in major areas of expenditure. A large part of the problem Moldova has had in meeting IMF targets is the failure to control expenditures, and poor budget preparation is a significant factor. IR 1.2.1.2, establishing a treasury system that integrates budget execution, accounting, and cash and debt management, is under the control of the IMF, as is a related part of the budget preparation piece, which would require the budget to meet IMF standards for classification and comprehensiveness. IR 1.2.1.3, restructuring of the intergovernmental finance system, is needed both to control central government expenditures and to strengthen the autonomy and accountability of local government.

The second element of the program is the creation of a market-oriented tax system that encourages compliance. IR 1.2.2.1, tax system supports economic growth, is being promoted through the development of single tax code for Moldova covering major areas of tax law found in most Western countries: corporate and personal income tax, value-added tax (VAT), excise taxes and real property tax. IR 1.2.2.2, tax laws are fairly and efficiently administered, involves the development of a tax administration system appropriate to a market economy, consisting of a broader range of enforcement mechanisms, taxpayer services and other incentives for voluntary compliance with tax laws, and establishment of a training center to instill the new laws and techniques.

The third element of the program is a parliament which acts affirmatively on budget and tax reform legislation. IRs 1.2.3.1 and 1.2.3.3 would improved the deliberations of the key Budget Commission and Banking and Finance Commission of the Parliament, by providing better information and analysis of the legislation within their jurisdictions. IR 1.2.3.2 would make Budget Commission works more transparent, by giving all public officials affected by its actions access to its legislative deliberations.

II. Overall Progress to Date

The development of a market economy in Moldova requires fundamental changes in the approach to government taxation and expenditure from those employed under the former

central planning system. The tax system must be restructured to encourage economic activity and taxpayer compliance and also to ensure fairness and consistent application. Modern techniques of budget preparation and budget execution are needed, along with greater transparency in the budget process so that policy decisions are well informed. In order for market-oriented reforms to succeed, the Ministry of Finance must develop the capacity to carry out its budget and tax responsibilities effectively and to function as the principal economic policy arm of the Government of Moldova, along the lines of finance ministries in OECD countries.

Technical assistance under this strategic objective aims to make the process of fiscal reform more comprehensive, systematic and transparent so that informed policy level decisions will be made and implemented and the implications of these decisions will be clear to all. Moldovan officials, especially the Minister of Finance, have been receptive to technical assistance and have actively pursued a number of reforms in government financial management in which USAID-funded advisors have been involved. These include changes in the budget process law, improved budgeting practices, and the establishment of a Treasury responsible for budget execution, accounting and cash and debt management. A program to establish a government securities capability has met with increasing success. In addition, the MOF has been highly supportive of an initiative to modernize the tax laws (especially the major taxes, including personal and corporate income tax, VAT and excise taxes) and harmonize some 35 separate and often conflicting laws into a single tax code.

USAID-funded advisors coordinate closely with other donor organizations involved in fiscal reform activities. The Treasury project is being carried out in cooperation with the IMF, which did the initial design and continues to provide short-term advisors in specific areas. Another advisor will work on the computerization of the tax collection function, in conjunction with a \$1.9 million loan for hardware and software from the World Bank. In addition, it is expected that EU-TACIS will fund the customs law portion of the tax code project.

Key impediments to progress toward this strategic objective include (1) low government salaries, scarcity of trained personnel, and lack of computer equipment and other material support; (2) a central planning system that discouraged initiative, delegation of authority and acceptance of change; (3) serious impediments to tax collection, including lack of a system for individual taxpayers, lack of civil penalties for tax law violations, and lack of specialization by tax enforcement officials; and (4) Moldova's small size and dependence on policy actions by other NIS countries to sustain its reform efforts, such as proposals to establish a "destination basis" for the VAT, in accordance with Western practice.

III. ENI's Significant Contributions

Since 1995, a USAID-funded project has team of experts providing technical assistance and training to Ministry of Finance officials involved in the areas of tax policy, tax analysis and

tax administration. In close cooperation with Moldovan counterparts, this project is engaged in drafting comprehensive reforms to the Moldovan tax laws and harmonizing those laws into a single tax code. Parallel activities are underway to strengthen tax administration and include supporting legislation in the tax code. As part of this element, the project will shortly be expanded to include assistance in computerizing the tax system, under a \$1.9 million loan from the World Bank. These efforts are accompanied by an extensive informational initiative, including training for MOF officials and seminars for representatives of other ministries, the Parliament and the private sector. The proposed personal and corporate income tax legislation is expected to go to the Parliament in June and to be passed sometime this summer. The draft VAT legislation is nearing completion and is expected to go to the Parliament later in the year.

Another USAID-funded team, consisting of a legal advisor and an economic advisor, has been working with the Budget and Finance Committee of the Parliament to review and provide analysis and policy advice on budget, tax and other economic legislation. An initiative to establish a Center for Budgetary and Financial Analysis, a sort of combined CBO-Joint Tax Committee for the Parliament, is expected to come to fruition shortly. This project should provide significant support to efforts to the Parliament's deliberations on the proposed tax law changes. In general, the project expects to meet the GOM's goal to implement the new tax code in 1998.

Under USAID funding, the U.S. Treasury has provided both resident and short-term advisors to the MOF, including a budget/treasury advisor, a government securities advisor, and short-term legal and data processing advisors. The principal undertaking is the implementation of a treasury system, with assistance from the IMF.

Components of this project include budget law, budget classification, organization of a Treasury, and implementation of a computerized budget execution, accounting, and cash and debt management system. A resident U.S. Treasury advisor is assigned to this effort, and USAID is providing computers to support the establishment of the central Treasury in the MOF and pilot projects in two regions.

IV. Expected Progress in 1997 and 1998

The tax reform project completes work on the codification of existing disparate tax legislation, and most of the major tax laws are revised in accordance with international standards. The enactment and implementation of the new single tax code enhances the environment for private investment and economic growth. Tax administration and collection is strengthened through training, computerization and measures to improve compliance through taxpayer information and additional enforcement tools. Reduction of the number of tax districts increases economy and efficiency.

The budget process law and budget classification are adopted and put into practice, with resulting improvements in budget preparation and transparency. A computerized treasury

system is functioning at the central Treasury in the MOF and in a couple of the districts (number reduced along lines of tax administration districts). This system gives the MOF a basis on which to control budget execution, in accordance with the adopted budget, and to carry out orderly cash and debt management. Debt service payments are made on time, and government securities issuances finance an ever-increasing portion of the budget deficit.

The Center for Budgetary and Financial Analysis is operational, with local staff trained by USAID-funded advisors to provide legal advice, economic analysis, and fiscal impact statements to the Budget and Finance Committee and other groups in the Parliament. Information developed by the Center enables the Parliament to conduct informed deliberations on budget, tax and other economic legislation.

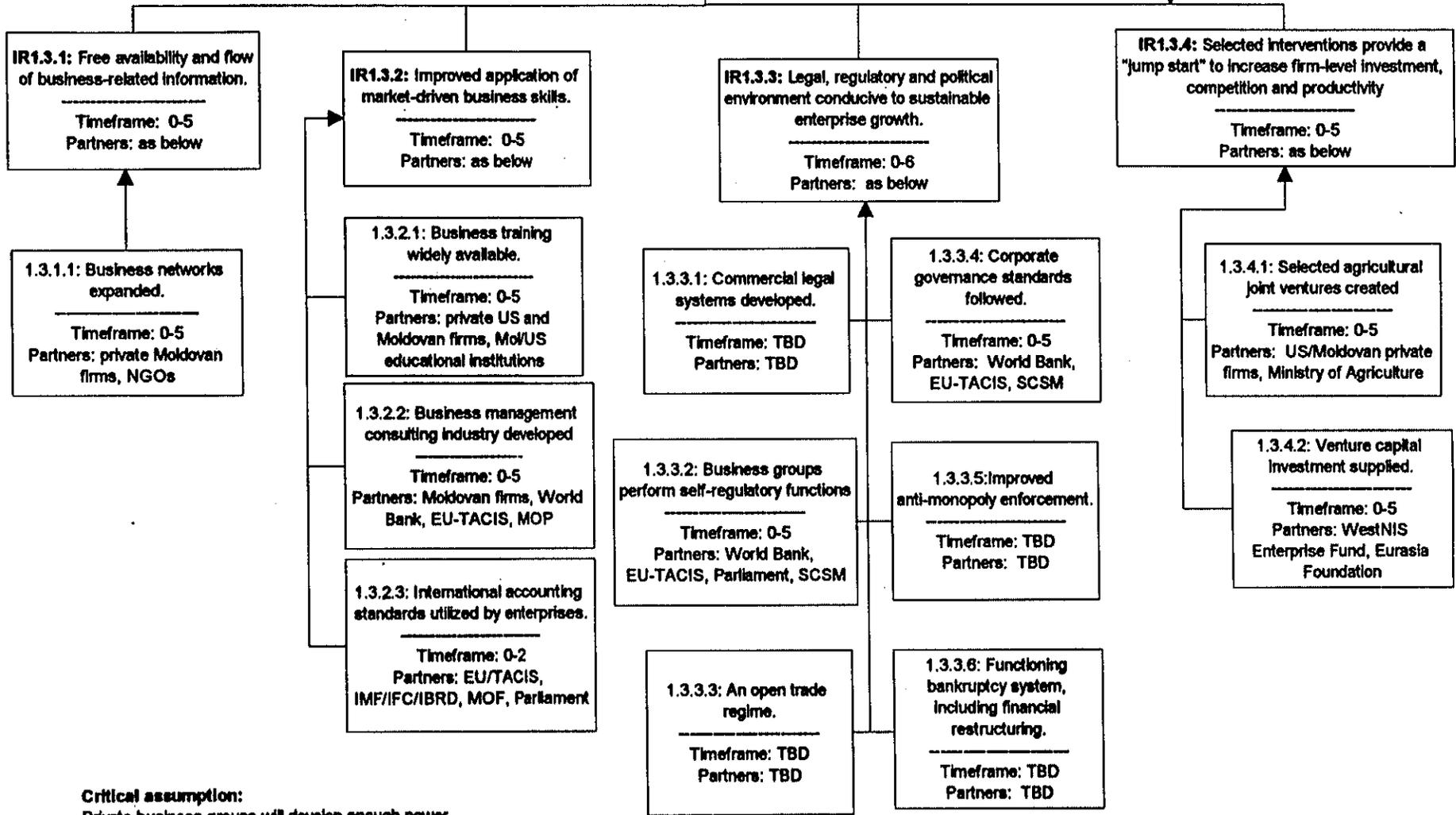
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Moldova: SO1.3

SO1.3: Accelerated development and growth of private enterprises.
 Timeframe: 0-5

IR 1.3.5
 SO1.1 Transfer of state owned assets
 SO1.4 Private financial sector
 SO1.2 Fiscal policies



Critical assumption:
 Private business groups will develop enough power to lobby successfully for additional law regulations, and Government compliance with them for private enterprise to succeed.

19a

SO1.3 Accelerated development and growth of private enterprises

I. Results Framework

Transition Hypothesis/Underlying Rationale

This strategic objective contributes directly to ENI Strategic Assistance Area I: Economic Restructuring. As the State abandons productive and commercial enterprises and reduces its service role, private enterprise must fill the void to maintain economic well being and improve upon it. The real proof of the value of the transition to a democratic, free market society is the well being of the people and its up to private enterprise to deliver.

For private enterprise to meet that challenge it must have certain policies in place. The legal, regulatory and political environment must guarantee property rights and enforce them. Commercial law must provide for transfer of ownership, for market entry and exit, competition, and cross cutting laws should establish the rules on taxes, banking, bankruptcy and labor. There must be an open trade regime to encourage the country to specialize in products and services for which it has a competitive advantage. Private enterprise and its owners must adopt certain standards for self governance and accounting in order to maintain the public trust through transparency of operations. Last but not least, in Moldova there still are powerful interests tied to State collective farms aimed at protecting those farms from restructuring and/or breaking up. There must be a strong effort to prepare the private sector to lobby to gain their legal rights to prosper in a new market economy.

Private enterprise also needs an infrastructure that provides business related information on market opportunities, prices, competitors, costs, taxes, regulatory requirements, etc. It requires opportunities to obtain the technical skills to use that information and business technologies to compete successfully.

The Mission has selected several sectors for "jump starting" interventions to increase firm-level investment, competition and productivity. Those interventions range from venture capital and credit to joint venture promotion to providing technical assistance to contractors providing services formerly provided by the State. Given the importance of agriculture to the economy (agriculture generates 50% of GDP and accounts for 38% of employment), that it has high potential for foreign investment, and that it is still monopolized by Collective and State farms, it is one of the sectors selected. Strategic Objectives 1.1 Transfer of State owned assets to the private sector, SO 1.4 A more competitive and market-responsive private financial sector, and SO 1.2 Increased soundness of fiscal policies are inextricably connected to this Strategic Objective, but are especially important to the agricultural sector. Privatization of the Collective and State owned farms, capital for development and sound fiscal policies are essential to give agroindustry its proper place as the leader in carrying Moldova's economy forward.

Critical Assumptions

1. That private business groups will develop enough power to lobby successfully for additional laws, regulations, and government compliance with them, for private enterprise to succeed. Ultimately private sector interests must garner sufficient power to not only change policies and laws but to force compliance in order for reforms to take hold.

Causal Linkages

SO 1.3 Accelerated development and growth of private enterprises in Moldova requires five sets of intermediate results in order to increase the number of businesses and their relative (to the public sector) contribution to GDP. They are: 1. Free availability and flow of business-related information, 2. Improved application of market-driven business skills, 3. Legal, regulatory and political environment conducive to sustainable enterprise growth, 4. Selected interventions provide a "jump start" to increase firm-level investment, competition and productivity, and 5. SOs 1.1, 1.2, and 1.4 produce the required transfer of State assets to the private sector, sound tax policies and investment capital at a reasonable cost. Those five together are sufficient for private enterprise to fill and exceed the GDP void left by a shrinking State contribution. Each of those IRs will be produced by the following results:

IR1.3.1 Free availability and flow of business-related information is the result of business information widely reported in the media (IR1.3.1.1) and business networks expanded (IR1.3.1.2). When those results occur, among other things, one should see price convergence around the country for key goods.

IR1.3.2 Improved application of market-driven business skills. On one hand, the private training sector will grow as its own business responds to market demand for skills (ir 1.3.2.1). On the other hand, enterprise performance will improve with the application of those skills, especially (IR 1.3.2.2) as the business management consulting industry is developed. A large enterprise restructuring effort features the employment of Moldovan consultants rather than the use of Western consultants. This will spawn a nascent management consulting industry in Moldova. Third, as international accounting standards are utilized by enterprises, these companies will be much more attractive for ventures with Western partners. In addition, the use of Western financial accounting provides managers with better information for more profitable decision making.

IR1.3.3 Legal, regulatory and political environment conducive to sustainable enterprise growth will be measured by the number of registered firms and employment in private small and medium-sized enterprises. There are a number of intermediate results required to create such an environment. Commercial legal systems must be developed to, at a minimum, enforce contracts at a reasonable cost (including transaction costs) (IR1.3.3.1). Business groups must be formed to perform self regulation functions and to lobby for specific changes in the legal, regulatory and political environment to favor private enterprise. Those groups must also ensure that the bureaucracy actually implements the policies as defined by

law and regulation (IR1.3.3.2) There must be an open trade regime that places minimal or no cost on imported productive assets and allows competition with imported goods to the benefit of the consumer. An open trade regime also encourages the country to emphasize those exports for which it has a competitive advantage (IR1.3.3.3) Companies must conform to a generally accepted set of standards for governance if they expect to sell shares as a means of gaining investment capital (IR1.3.3.4) The government must improve enforcement of the antimonopoly law, increasing State enterprise exposure to competition on an equal footing with private business, in order gain the full benefits of private enterprise (IR1.3.3.5) Finally, there must be a functioning bankruptcy system for the protection of the banks and private investors in order to encourage investment in private enterprise (IR1.3.3.6).

IR 1.3.4 Selected interventions provide a “jump start” to increase firm-level investment, competition and productivity will be measured by the number of firms that receive direct, company-specific restructuring from USAID. The Mission selected key areas for direct intervention to increase GDP because those areas offer windows of opportunity for high impact in the short term or even greater impact over the long term. As mentioned above, because of the enormous potential of agriculture, collective farms are being restructured into business operations. The Mission is brokering joint ventures in agriculture to bring market opportunities and forces to bear on agricultural inputs and on marketing of agricultural products. Even collective or State farms may become more productive if they get real market costs applied to inputs and real market prices for their outputs. (IR1.3.4.1). Various programs, including the WestNIS Enterprise Fund, supply venture and loan capital to capital market niches. Those market niches include small and medium sized businesses, credit union development and micro enterprise (1.3.4.2).

Finally, the fifth IR1.3.5 includes results from three other SOs that are necessary to achieve accelerated development and growth of private enterprise. They follow:

SO1.1 Increased transfer of State-owned assets to the private sector. For State assets to become real assets rather than national liabilities, they must come under private control so that their economic viability is tied directly to the economic viability of the decision makers directing their use. Those decision makers must swim in the same sea as private enterprise, subject to the same market rules, for competition to produce real social benefits. Transfer of State-owned assets to the private sector is necessary to allow State monopolies to dissolve into competitive enterprises.

SO1.4 A more competitive and market-responsive private financial sector. There must be a private financial sector to keep the banking system from subsidizing failing State enterprises. It must be competitive so that State banks cannot afford to invest in liabilities but must invest in productive activities and so that the cost of finance (the intermediation spread) becomes a reasonable cost for business. As capital markets develop they will provide additional sources of finance for private enterprise.

SI 1.2 Increased soundness of fiscal policies and fiscal management practices. Sound fiscal

policies and practices are necessary to give business a stable set of rules over time that favor private enterprise rather than tax it out of business.

II. Overall Progress to Date

More than 1200 medium and large enterprises have been transferred to the private sector during the Government of Moldova's mass privatization program, completed November 30, 1995. With this transfer more than sixty percent of Moldova's industrial assets now reside in the private sector. For these enterprises to succeed and emerge as commercially viable businesses, a receptive enabling environment must exist in Moldova so that privatized enterprises can become commercially viable.

Business development is essential to create jobs, generate income, expand the availability of goods and services, increase tax revenues and produce other economic benefits. However, there are still many barriers to establishing and maintaining businesses. Entrepreneurs are constrained by a lack of advanced business skills necessary to grow and compete in an increasingly competitive market environment. While there are a range of consulting and business service organizations, they also have limited skills and exposure to the modern techniques demanded by their clients. Access to capital, and more importantly, the knowledge and experience to use it well, are major constraints to business development. Equity financing is limited particularly for small and medium enterprises (SMEs) because most SMEs are too small to capture the attention of private investors and the institutions with money to lend or invest. Widespread dissemination of ideas, data and information, as well as availability of services and financing, will greatly improve the competitive environment, as well as the number and range of business transactions.

This competitive environment will be evidenced by a functioning and well developed capital markets infrastructure; strict compliance of corporate governance principles and observance of shareholder rights; issuance and recordation of land titles; the ability for the enterprise to raise capital through private placements or public offerings of shares; wide acceptance and dissemination of international accounting standards; and the existence of self-regulatory organizations capable of representing and licensing their membership, and issuing appropriate standards. These and related activities must function in a synergistic and interdependent manner so that these multiple institutions and the legal and regulatory framework enhance the commercial viability of the enterprises and promote and develop new business start-ups.

Agriculture, agro-industry and the entire food system are key to the transformation of the Moldovan economy. The country has a strong comparative advantage in agriculture, which alone generates 50% of GDP, 38% of employment, and is a major source of present and future foreign exchange earnings. The entire food system, including the agro-industrial complex and retail trade, plays a much larger role in the national economy and employment. At the same time, however, agriculture, the agro-industrial complex, and the farm structure and land ownership are among the strongest pieces of the old Soviet system that has been left

relatively intact. The stated intention of the government is to move toward a market economy and private ownership of enterprises and land, but the traditional involvement of the state in all aspects of agricultural production, processing and trade is reflected in opposition within the Parliament to land reform in general. The fact that former Collective and State Farms, though technically privatized, are still largely intact indicates the strength and the resistance to change of many farm directors, and the level of uncertainty on the part of farm workers and pensioners about the impact on them of farm restructuring and land privatization.

Finally, a successful market economy requires a legal framework to support basic economic freedoms, the guarantee of private property rights, and the means to enforce these rights. The primary underpinnings of a commercial law system include structures for property ownership and transfer, for market entry and exit, and for market competition, as well as cross cutting laws on tax, banking and labor. The urgency of legal reform and the lack of Moldovan experience in market principles and parliamentary process make it challenging to establish a sound commercial law framework in Moldova. In the course of adoption, some laws have been revised in ways that detract from their workability. This and other factors have led to laws that are often inconsistent or dysfunctional.

Results achieved to date include:

- Free availability and flow of business-related information: NewBizNet has 25 subscribers to its business information networks at two business support centers in Moldova. In addition, business networks have expanded to generate business advocacy associations who are becoming increasingly effective in building a database for SME entrepreneurs and in promoting business development.
- Improved application of market-driven business skills: 60 Moldova professionals and four professional service firms are being trained in enterprise restructuring. These trainees will be utilized in the roll out and follow-on activities when they will replace expatriate staff and responsible for training additional Moldovan professionals and providing restructuring assistance to a greater number of enterprises.
- Legal, regulatory and political environment conducive to sustainable enterprise growth. Accounting reform project is scheduled to begin in June 1996. The analytical capacity of government officials is being developed, as legislators are being assisted to understand the ramifications of laws proposed for enactment through a pilot effort in Center for Budgetary and Financial Analysis within the Parliament.

Key impediments to progress toward this strategic objective include: (1) the gradual official pace at which agricultural reform and private ownership of agricultural land is currently scheduled for in Moldova; (2) the hesitancy of entrepreneurs with financial and managerial resources ready to risk personal investment in the market to fill the vacuum left by the previous agricultural monopolies; (3) the continuing high price of credit through commercial

banks; (4) potential opposition to a private agricultural commodities exchange; 5) hesitancy within the government to accept a reasonable pricing structure for land under privatized enterprises that would allow agro-industrial enterprises to participate in development; (6) slowness in making progress in developing a framework for institutionalizing rules regarding property relations and an enforcement system for ensuring that contracts are adhered to; and (7) new laws which are inconsistent with previous statutes not yet modified, or are inconsistently applied by local level officials not yet convinced of the value of supporting and encouraging reform.

III. ENI's Significant Contributions

USAID is assisting Moldova to develop a management consulting industry in general, and enterprise restructuring activities, in particular. This effort is focused on developing many systems and local institutions that will promote business development and restructuring instead of engaging U.S. consultants in long-term initiatives with specific enterprises.

For this consulting industry to be successful, it will need to provide its clients with a range of services comparable to those provided by Western business management consulting firms. Initially, and over the coming years, a concentrated demand will focus on cost accounting, financial and management reporting, marketing, sales and distribution, corporate finance, financial restructuring and in-plant technology. The demand for these services will be driven by enhanced free market competition and the desire to acquire new skills. Critical to this effort and success, is the development of a cadre of Moldovan trained consultants. These consultants will be skilled primarily through on-the-job training for the purpose of increasing the number of available consultants and increasing the capacity of these consultants to provide management consulting services.

Without laws, regulations and policies that are conducive to business activity, the private sector will not be able to grow. USAID is addressing this issue through strengthening business advocacy associations, and improving the analytical capacity of the Parliament to understand the ramifications of laws proposed for enactment. The improved management of business is a key to the creation of viable private enterprises. Capacity building assistance is being provided to 62 Moldova professionals and four professional service firms. These trainees will be utilized in the roll out and follow-on activities when they will replace expatriate staff and responsible for training additional Moldovan professionals and providing restructuring assistance to a greater number of enterprises.

Specific Results:

- The Vice Prime Minister with oversight for agriculture has requested that a pilot effort focused on the restructuring of agroindustrial enterprises (former collective farms) be replicated throughout the 40 districts of the country.

- The government has requested that USAID replicate the pilot effort in all 40 districts of Moldova with the objective to restructure and/or break up and redistribute land and other property of up to 70 former collective farms as well as train a cadre of Moldovans capable of continuing this effort beyond USAID assistance.

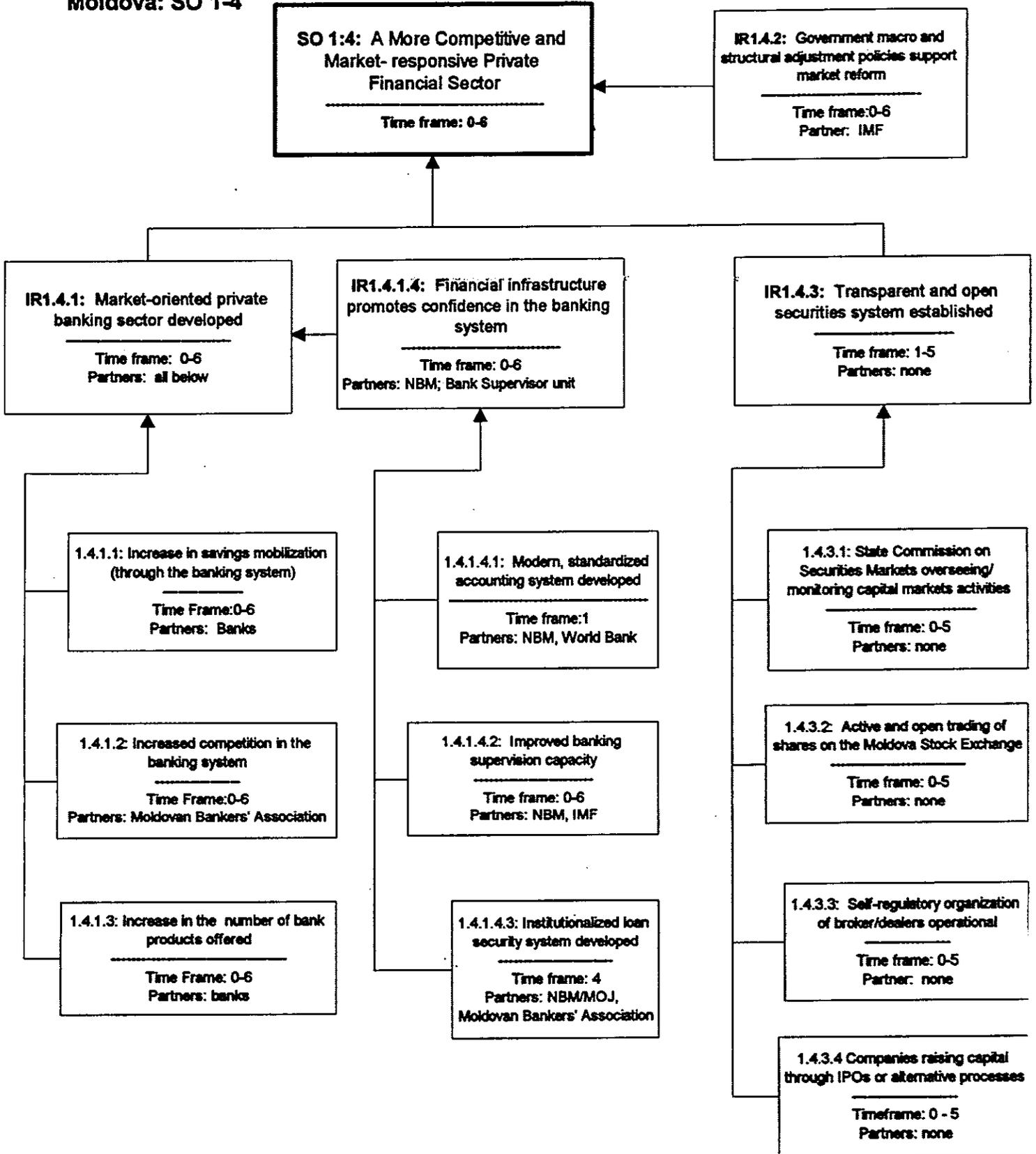
IV. Expected Progress in 1997 and 1998

USAID will build on its integrated and interdependent activities to develop the legal and regulatory environment related to capital markets and land markets, privatization of urban and agricultural land, expansion of the capital markets infrastructure and the development of western accounting. The program is designed to build the capacity of individual Moldovan professionals, independent firms and nascent industries in fields that did not exist before the transformation to a market economy, and in areas that are essential to ensure that new and developing enterprises become commercially viable.

To improve the management capacity of business, USAID will assist in the improvement of production and processing technologies in selected consumer goods and agro-industry businesses; in the provision of additional financial resources at commercial terms through selected units of the banking sector; in transferring management and marketing information for selected local businesses through joint ventures; and ensure the availability of adequate market and business information to inquiring and identified entrepreneurs through business and farm advisory centers scheduled to receive donor assistance. In addition, will continue assistance to WestNIS Enterprise Fund to assist entrepreneurs in obtaining long-term equity or debt assistance for their ventures.

5/31/96

Moldova: SO 1-4



SO 1.4 A more competitive and market-responsive private financial sector

I. Results Framework

Transition Hypothesis/Underlying Rationale

Under the prior regime, the banking system in the Moldova was not a mechanism for allocating funds to the most efficient investors, but rather an intermediary for implementing the Central Plan. In that environment there was no concern for risk or solvency because defects were automatically covered by the GOM. The task is now to transform the financial sector into one based on market pricing principles rather than on central fiat, thus contributing to ENI Strategic Assistance Area I: Economic Restructuring. Even today State banks continue to lend to failing State enterprises. The government's role in the transformation is to develop a financial infrastructure to promote a safe, sound and efficient banking system. The challenges facing the government are (1) to support competition among the banks to drive down the cost of capital intermediation so that more private enterprises can afford to take advantage of it; (2) to promote transparency of operation; (3) to create a supervisory authority with sufficient independence from State control to enable it to intervene, and if necessary, close failing banks, whether private or State; and, (4) by meeting the prior three challenges, generate sufficient public confidence in the banking system that it attracts increased savings resources to invest in productivity. If the government meets those challenges successfully, price will begin to allocate financial resources through the most efficient banks and to the most productive enterprises. The banking system will become an asset for private enterprise growth rather than a national liability.

The securities side of the financial sector was born out of State privatization efforts. In fact, the development and functioning of capital markets is seen as a necessary corollary to privatization. Once the citizenry becomes shareholders in the productive asset base of the country, the expectation is that many of these people will want to trade their shares and that others will form groups who are interested in consolidating and increasing their stakes in particular companies. The privatized companies, in turn, will need to acquire more equity and working capital through investments channeled through the securities market. The necessary breeding ground for these clearly beneficial outcomes is the development of reliable, transparent trading systems.

The expectation is to have what began as a form of redistribution of State assets to the general population and reducing formal State ownership in enterprises, become a vehicle for savings mobilization for productivity. The national patrimony bonds distributed were not individual savings but a redistribution of social investment. The securities system that is evolving to manage private ownership through State transfer of assets should be the same vehicle for capital mobilization by the private sector. The final indicator of the success of

the Moldova Stock Exchange is companies using it to raise capital through initial public offerings (IPOs). Like the case of the banking system, the government must create a transparent and level playing field with adequate supervision and enforcement to warrant public trust in securities as an investment for savings. The government must also create the rules and supervise the operation of secondary markets in order to offer liquidity to the investor. A properly functioning securities market could also mobilize savings for private enterprise growth. Some of those savings might even be in the form of insurance payments and/or withheld earnings for social benefits.

A more competitive and market-responsive private financial sector will provide investment capital for private enterprise growth, directing it to the most productive activities at a lower cost. That investment is essential for private enterprise to fill the economic void left by a bankrupt State.

Critical Assumptions

1. The major critical assumption is that the government can instill enough public confidence through oversight of the banks and capital markets that systemic risk is minimal, if either exogenous or endogenous shocks to the finance system occur. The corollary is the continuation of the current, highly commendable, macroeconomic stabilization policies which give the public confidence that savings, in financial form, will not be erode through inflation.

Causal Linkages

Since the justification for restructuring the financial sector is its contribution to private enterprise growth, private sector investment as a percent of GDP is the measure for the strategic objective. A competitive and market-responsive financial sector will attract capital from both private investment and consumption. Combined with profitability in private enterprise, it will attract foreign investment as well. Three intermediate results are necessary and sufficient to increase that private sector GDP ratio: IR1.4.1 Market-oriented private banking sector developed; I.R.1.4.2 Government macro and structural adjustment policies must support market reform; and IR 1.4.3 Transparent and open securities system established.

There are four intermediate results required to create the market-oriented private banking system.

First is IR.1.4.1.1 Increase in savings mobilization through banking system. As described above, with a financial infrastructure that promotes confidence in banks, the public will be more favorably disposed to using banks as a depository for savings and banks will be able to expand their balance sheets and lend more to creditworthy borrowers..

The second is IR 1.4.1.2: Increased competition in the banking sector. If the government

allows markets to operate, and deposit and loan interest rates to be determined by market pricing, competition will increase efficiency, narrowing interest rate spreads to the benefit of customers, both depositors and borrowers.

The third is IR 1.4.1.3: Increase in the number of bank products offered. Home equity loans, mortgage finance, lines of credit, commercial deposits and lending can offer additional markets for capital intermediation. As bankers gain knowledge in risk analysis and general methods of western banking, they will increase the sophistication of services for both depositors and borrowers.

The fourth is IR 1.4.1.4: Financial infrastructure promotes confidence in the banking system. There are three intermediate results required to produce that confidence in the banking system: 1. A modern, standardized accounting system is necessary in order to allow independent evaluation of banking performance by government supervisory agencies, potential investors, and customers. Until performance is uniformly measured it cannot serve the function of directing capital toward efficiency and profitability. 2. The banking supervision capacity must be improved so that it can use the accounting system information to identify troubled banks early and intervene in the interest of the customers in order to maintain confidence in the system and the continued use of customer capital. 3. A loan security system must be institutionalized in order to establish priorities for the collection of loans.

I.R. 1.4.2 : Government macro and structural adjustment policies support market reform. The Moldovan government must continue to control inflation, reduce deficit spending, divest unprofitable economic activities to ensure that the private sector is not crowded out of the financial market.

Moving on to the next set of results, IR1.4.3, a transparent and open securities system will perform the function of direct intermediation of capital from savings to the private sector. Secondary markets for securities create liquidity for all participants and open up investment options for insurance companies, pension and other benefit funds from the government and/or unions. There are four sets of intermediate results required to create a transparent and open securities system. 1. A securities regulatory commission must be empowered to oversee capital market activities (IR1.4.3.1). The government must take all measures necessary to ensure transparency and take corrective action to protect investors or there will be very few investors. 2. Active and open trading of shares through on the Moldova Stock Exchange (MSE) (IR1.4.3.2). The MSE provides liquidity to investors and opens up opportunities to new investors. Given the right code of conduct for the broker/dealer community and effective self-regulation, the MSE can also perform depository, clearing and settlement and transfer agent functions for the capital markets. 3. Self-regulating organizations of broker/dealers must be established and authorized to have oversight and take enforcement actions regarding their members (IR 1.4.3.3). Self-regulating organizations can greatly reduce State costs of supervision by reducing its burden. They can also direct the State to investigate situations beyond the control of self-regulation. 4. Companies raising

capital through IPOs or alternative processes (1.4.3.4). The final proof of a securities system is that companies use it to raise investment capital. Those four sets of intermediate results are sufficient to produce a transparent and open securities system.

II. Overall Progress to Date

The development of a strong and dynamic market-based economy requires an effective, transparent and safe financial sector. USAID's strategy emphasizes the creation of a private banking sector together with the creation of a transparent and open securities system. The revitalized banking sector will provide a vehicle to transfer ownership and funds between individuals and enterprises, and capital markets facilitate the restructuring of enterprises and provide them with a flexible source of fund for investment.

A market-based financial system, using price to allocate financial resources, is critical to channel resources to the most efficient enterprises and to support the development of the private sector. Efficient financial intermediation in Moldova requires, among other things, development of the financial infrastructure and human capacity to facilitate financial intermediation and commercial lending. Infrastructure requires effective bank supervision, efficient funds transfer, a sound legal and regulatory foundation, an accounting system that accurately measures profitability and financial condition, a loan security system (collateral registry), and a broad-based money market (government securities, interbank funding). The National Bank of Moldova has made some progress in developing the infrastructure for a safe and sound banking sector in which banks are able to pay a true intermediation role. Specifically this means development of bank supervision capacity, accounting and reporting, the legal infrastructure and government securities markets and the establishment of a collateral registry. This work is critical to developing a larger number of viable banks as opposed to the current fragmented situation in which many of the banks may not be solvent and some serve as little more than adjuncts to company treasuries. The critical component driving growth in emerging markets is the development of a liquid securities market, one in which the concepts of broad-based capital ownership, the reallocation of financial resources between borrowers and lenders and ability to attract institutional and individual investors into the marketplace, come into play.

Effective, safe and transparent capital markets are the sine qua non of a market economy. They are critical to an economy, such as Moldova's, that must make massive changes in the ownership of productive assets and that must restructure company operations in order to become competitive in world markets. For privatized companies, capital markets facilitate ownership changes that, in turn, allow corporate governance to begin to change company behavior and performance. For new companies, capital markets permit investment to be raised on competitive and transparent terms. Both processes are essential to and accelerate the economic transition.

Capital market infrastructure development is being sequenced to reflect the needs of the

market. In the early stage of direct buyer-seller privatizations and in the immediate post-privatization period, independent registrars are most important to guarantee that share ownership is formalized and recognized by the company concerned. Later, as broker/dealers start serving as intermediaries for buyers and sellers, organized trading places (exchanges and over-the-counter) are needed to ensure operational efficiency and transparency. Subsequently, as volume rises, and to assure that transactions close safely, trading mechanisms require clearing and settlement facilities to ensuring delivery vs. payment, and sound oversight of the market as a whole as well as self-regulation by a growing number of market participants is needed.

Moldova's capital markets structure underwent significant changes last year, the most noteworthy items being the opening of the Moldovan Stock Exchange the establishment of the Securities and Exchange Commission (SEC).

Financial reform activities are coordinated with the IMF and the German Government.

Results to date include:

- Consolidated Securities Regulatory Commission established: A Securities and Exchange Commission was established in ____, making Moldova the first NIS country to establish an independent securities market regulating entity with Ministry status.
- Moldova stock exchange opened in June 1995.
- Improved banking supervision capacity: A troubled bank resolution unit has been established in the central bank. This unit has already made its first recommendations for dealing with the largest troubled institutions.
- Modern, standardized accounting system developed: The Central Bank has converted to a new chart of accounts, and the commercial banks are expected to convert to a new chart of accounts consistent with internationally accepted standards, with USAID assistance, by the end of 1996.

III. ENP's Significant Contributions:

The development of the financial infrastructure in Moldova is continuing at an accelerated pace. The Moldovan Stock Exchange was inaugurated in June, 1995, following a six month USAID effort to train Moldovan professionals in all aspects of the securities market and installation of the necessary hardware and software. So far 43 investment, 11 trust companies, 27 independent registrars and 54 broker/dealers and consulting companies are active in the stock exchange. Moldova was the first NIS country to establish an independent securities market regulating entity with Ministry status, the Securities and Exchange Commission. In addition, the Central Bank has converted to a new chart of accounts, and

the commercial banks are expected to convert to a new chart of accounts consistent with internationally accepted standards, with USAID assistance, by the end of 1996. Improved banking supervision is a major emphasis, and it has led to the formation of a troubled bank resolution unit in the central bank, with assistance from USAID. This unit has already made its first recommendations for dealing with the largest troubled institutions.

Specific Results to Date:

- In 1995, the volume of shares traded was over 300,000, equaling over 2.2 million Moldovan Lei.

IV. Expected Progress in 1997 and 1998

The following items are deemed as priorities for continued capital market development:

1. Restructuring of the privatization investment funds into investment funds of a common type, stimulating overall investment activity with the ultimate goal of raising capital in the marketplace through IPO's or alternative methods.
2. Improvement in the quality of professional market participants activities, specifically broadening the knowledge base, expertise of broker/dealer, and independent registrars/
3. Improvement of the legislative base supporting multiple aspects of the securities market, ensuring both a capital market adjusted to international standards and further development of the underlying infrastructure of the securities market.
4. Enforcement actions to ensure market transparency and liquidity, for the protection of investors and to foster additional investments into the national capital market.

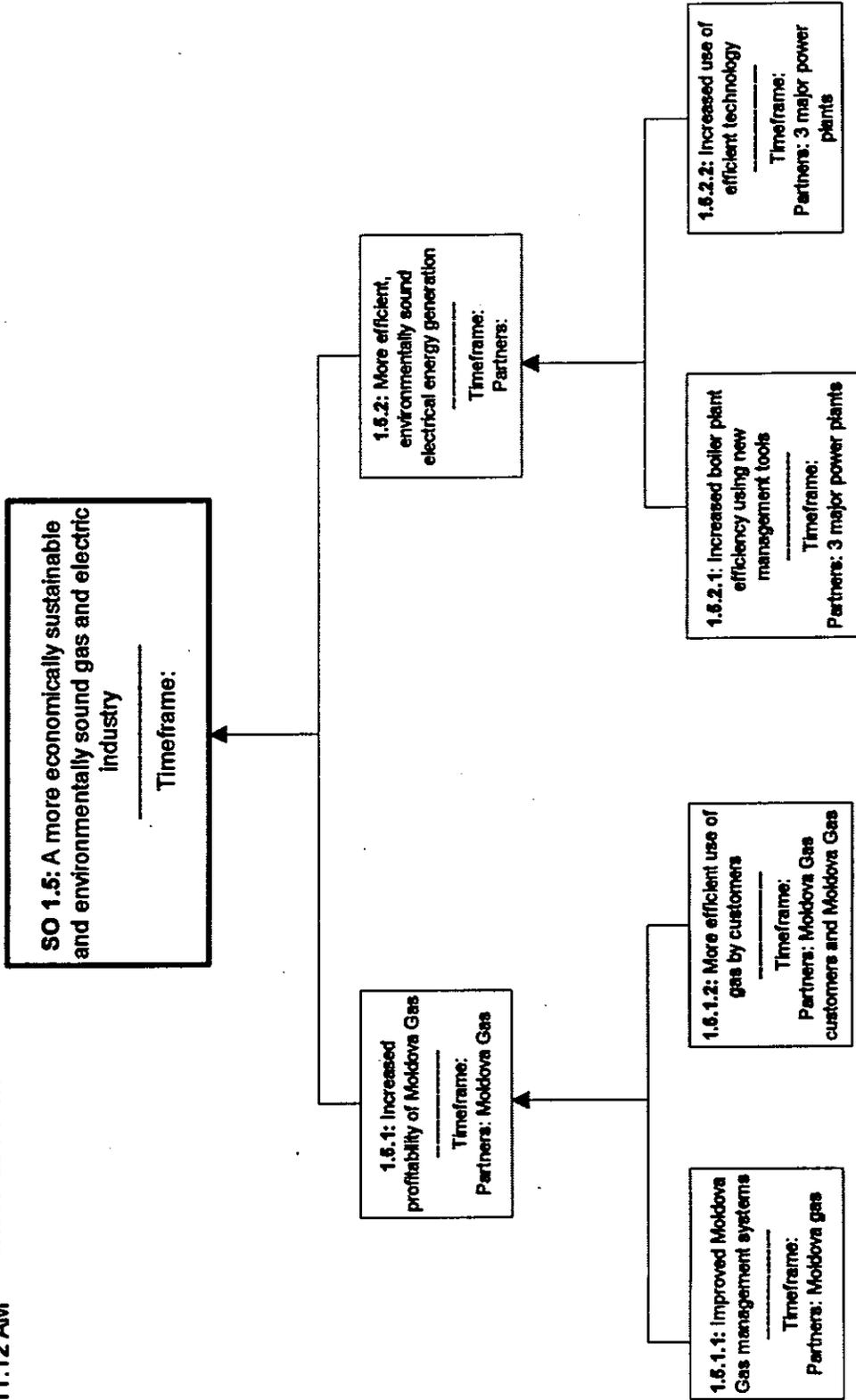
USAID assistance will continue to help create a professional bank supervision department at the National Bank, focusing in particular on development of an off-site supervision system which will use the work developed on the accounting standards earlier. AID will also be well into the implementation stage of accounting reform in the commercial banks. As well, USAID expects a system for secured lending will be developed on a general basis.

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Moldova: SO 1.5



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

I. Results Framework

Transition Hypothesis/Underlying Rationale

With the exception of 66 MW in hydroelectricity, Moldova is entirely dependent on imported fuels for its energy requirements. Its sole current supplier of natural gas and liquefied petroleum gas (LPG, principally propane and butane) is Russia's GasProm. Natural gas imports in 1994 totaled just over 3.0 billion cubic meters (bcm), at a border price of \$80 per thousand cubic meters (tcm). Approximately 42% of this amount was consumed in the Transdnister region, currently controlled by a self-declared but unrecognized independent government. Much of this consumption was for electric power, which is dispatched throughout Moldova.

The gas supply industry in Moldova is currently structured under a state holding corporation, Moldova Gas Concern, composed of some 51 subsidiaries. The bulk of these (42) are regional gas distribution enterprises. Moldovagas has no current capability, however, for operational, administrative and financial oversight and planning of its affiliates. Currently, the management structure of Moldovagas is small. The company has no corporate planning, finance, rate and regulatory, marketing, or customer service departments. A utility commission was established at the end of 1994. In 1995 the Moldovan Parliament had approved a Privatization Program that includes Moldovagas as a prime candidate. Privatization is viewed by the Moldovan Department of Energy as a means of accelerating the restructuring and commercialization of the gas enterprises. It appears that premature privatization may well have the opposite effect. Restructuring and commercialization are essential precedents to successful privatization:

It is critical to assist Moldovagas (a vertically-integrated, government-owned, and government-operated enterprise) in its transition into a commercial energy company. This activity will be the first step toward the introduction of modern organizational structures, financial, administrative and operating practices and management information systems so as to create necessary preconditions for ultimate privatization of the resultant corporate entities. Thus the specific objectives of this technical assistance effort is to assist the Government of Moldova in its efforts: (1) to prepare Moldovagas for the introduction of foreign investment by beginning efforts to improve management systems at Moldovagas; (2) to demonstrate gas demand management technologies that can be effective in helping Moldovagas serve customers according to market conditions, and increase energy efficiency, reduce environmental emissions, and reduce dependence on gas imports; (3) use natural gas effectively through introducing state-of-the-art combustion technologies to the energy industry. Efforts will also be made, in cooperation with the World Bank, to assist the

Government of Moldova to reduce subsidies for natural gas consumption.

Critical Assumptions

1. To be economically sustainable, Moldova Gas Concern will need to become a commercial energy company, and raise profits from internal operation. Commercialization is viewed as a precondition for privatization.
2. In the context of macroeconomic transformations there will be sufficient momentum from market forces and political will to overcome non-payment problems throughout the economy.
3. The World Bank with additional donor support will be successful in assisting the Government of Moldova to restructure the energy industry, make it commercially viable and attract investments.

Causal linkages

Achievement of SO 1.5 will be measured by increased profitability of Moldovagas, more efficient use of gas by customers and reduced cost of electric power and heat production..

The general approach to this objective will be to work in concert with the World Bank, as it develops loans for Moldova's energy sector. USAID will provide grant-funded technical assistance designed to help the Government of Moldova meet stringent institutional reforms necessary as conditions precedent to World bank credit effectiveness. In so doing, USAID will use the World Bank loan to leverage its scarce resources, thereby increasing likelihood of success in energy sector institutional reform in Moldova. USAID assistance will also demonstrate U.S. approaches and equipment, thereby opening the door for later U.S. exports and trade under the World Bank loan, as well as from other international financial sources.

There are two Intermediate results required to achieve the SO: 1. There must be an increased profitability of Moldovagas (IR 1.5.1), 2. There has to be more efficient, environmentally sound electrical energy generation.

IR 1.5.1: Increased profitability of Moldovagas. There are two intermediate results that will ensure profitability of Moldovagas:

1. Improved Moldovagas management systems. Addressed are the following aspects of gas delivery system: increase working capital through greater collection of cash payments, proper metering of the customers, and rationalization of pricing. (IR 1.5.1.1).
2. More efficient use of gas by customers. To define and initiate activities designed to demonstrate improved efficiency of natural gas use by customers and Moldovagas,

it is necessary to: (1) design plan for gas customer audits; (2) carry out planned gas customer audits; (3) conduct gas demand demonstrations for Moldovagas at six audited customers. (IR 1.5.1.2).

IR 1.5.2: More efficient, environmentally sound electrical energy generation. Power generation will be improved through partial rehabilitation of aging power plants; improving gas consumption; lowering cost of energy production per Kilowatt hour (kwh). There are two intermediate results to achieve this:

1. Increased boiler plant efficiency by management. It is anticipated that related modifications to institutional strategies and transformations of the management of energy enterprises toward market principles will be introduced. As a result, cost of power production is likely to decrease (IR 1.5.2.1).
2. Increased use of efficient technology. To achieve this, portable energy efficiency equipment will be used in identifying immediate energy saving opportunities. Relevant training and partnerships will help to identify short-term no-cost/low-cost efficiency measures with saving potentials and payback. Recommendations will be used when planning investments to the sector.

II. Overall Progress to Date

Moldova is dependent upon imported fuels for its energy requirements, with the sole exception of hydroelectricity. This problem is further compounded by the fact that its only current supplier for natural gas and liquefied petroleum gas is Russia. Moldovagas, the only gas supplier in the country, is in arrears to Russia by over U.S. \$230 million. Its ability to pay is substantially hindered by nonpayment by its own customers -- which include the national electricity utility, Moldenergo. Effective (and profitable) operations of Moldovagas will be an important contributor to the overall soundness of the gas and electric industry in Moldova. USAID will be assisting Moldovagas in its transformation from a vertically - integrated monopoly into a commercial energy company. Additionally in parallel, work will be performed to increase the efficiency of gas consumption and to develop more efficient mechanisms for energy generation. Since the work is just being begun, there is no progress to date.

Energy assistance is being provided in Moldova by the World Bank, EBRD and EC TACIS.

III. ENI's Significant Contributions

As noted above, the work for this objective is just beginning. Indeed, the scope of work for the primary work on the Moldovagas activity has not yet been finalized. Accordingly, it is premature to have results and/or contributions at this stage.

Key Issues Impeding Progress: The successful privatization of Moldovagaz cannot occur absent the resolution of the severe problems resulting from nonpayment. Moreover, there is currently a draft agreement between Moldovagaz and Russia (Gazprom) concerning a debt equity swap which would result in a majority interest being held by the Russian partner. Conclusion of this type of arrangement could significantly hinder our ability to have an impact on corporate improvements. Additionally, progress depends on the ability of Moldovagaz to obtain needed World Bank funding, which in turn is dependant upon meeting certain institutional reforms.

IV. Expected Progress in 1997 and 1998

- Improved managerial, financial, planning and commercial practices and control procedures within Moldovagaz.
- Improved efficiency of natural gas usage by customers of Moldovagaz.
- Improved management of boiler/plant operations through optimally cost effective efficiency improvements in three primary plants.
- Introduction of state of the art combustion technologies to the energy industry.

Special Objective Democracy

Rationale

Parliamentary elections in 1994 were declared free and fair despite a boycott of the elections in the Transdnister region, where Russian troops maintain a presence. Moldova will hold its first contested presidential elections this year. Although the electoral process has made significant progress, Moldova still lacks a permanent Central Election Commission, and parties, candidates, and citizens lack adequate knowledge of the electoral process. Independent media exist, but virtually all of the media still depend on some form of subsidy and thus are subject to political influence. Non-Government Organizations (NGOs) exist, but most are small and poorly funded. In 1994 a post-Soviet constitution was adopted and in 1995 Moldova was approved for membership in the Council of Europe. But legal reform is still in a nascent stage. Judges are appointed by the president and the courts are still influenced by the executive branch. Under the new constitution, prosecutors maintain significant power, and there has been no reform of the criminal code. Less than 10% of lawyers are in private practice. The Parliament is still passing laws without adequate analysis and research, although the quality of debate and of new laws continually improves.

Time Frame

Political Process and Rule of Law programs have been active in Moldova since 1993. In FY 96, approximately \$1 million in funding was provided for the activities of the International Foundation for Electoral Systems (IFES) and the American Bar Association's Central and East European Law Initiative (ABA/CEELI). The nascent stage of legal reform and the upcoming presidential and parliamentary elections warrant this level of engagement through the end of FY 96, and USAID assistance will continue to achieve results through at least FY 98.

Expected Results

By promoting the active participation of citizens in political and economic decision-making, and supporting the legal profession and judiciary, USAID is generating support for reforms, including the objectives included in other SOs. USAID activities provide technical assistance, training, seed grants, and material to Moldovan NGOs interested in raising awareness of civic issues. USAID assists government entities with improving election administration, drafting electoral legislation, and educating the public on the democratic process. USAID assistance enhances the legal profession by strengthening legal associations and developing continuing legal education programs. Assistance is also provided in areas of legislative drafting training and judicial reform.

Greater citizen participation, more transparent election administration, and enhanced legislative process are already having a measurable, although limited impact. Significant progress, however, will require a minimum of several years. USAID programs are expected to achieve greater citizen participation in the political process through NGO advocacy, greater citizen awareness of their rights, a permanent central election commission, more effective legal professionals, and more rationalization of laws.

Performance

Performance criteria will be based on the following:

- Percent of population knowing/understanding specific rights
- Targeted laws are:
 - up-to-date
 - published in a timely manner
 - available to all judges and court officials and organized to expedite research
- Number of changes made to government policy as a result of citizen participation
- Number and types of fora in which NGOs engage state institutions in policy debate
- Percent of public with opinion that elections are free, fair and transparent
- Rating of elections as free and fair by local and international monitors
- Establishment of a permanent Central Election Commission

Overall Progress

Moldova has adopted a post-Soviet constitution, conducted free and fair elections, and begun implementing significant reforms. Legislative drafting has improved, the courts are generally independent and constitutional court decisions are abided by. An indigenous NGO sector is growing despite financial obstacles and low memberships. Independent media exist and are generally free of censorship.

ENI's Significant Contributions

USAID-funded grantees have provided expert consultation on many draft laws and on changes in the legal structure. Consultation is provided to the Constitutional Court and government officials. An elections resource center has been established, public opinion surveys have been conducted and disseminated, and assistance to the Central Election Commission and NGOs improved the flow of information to citizens. A Legal Center has been established as a permanent base for the continuing legal education of legal professionals, and a bi-monthly publication distributed to legal professionals prints new laws, analyses, and other information.

Expected Progress

Expected progress under this Special Objective include the establishment of a permanent Central Election commission, creation of a permanent organization of domestic election observers, creation of a sustainable judicial training center and the long-term sustainability of several civic NGOs that are active in public education and civic activism. Legal consultations will continue to aid legislators and judges, and professional legal associations will continue to receive training and technical assistance.

Special Objective Eurasia Foundation

Rationale

The rationale behind the Eurasia Foundation Project is to support an independent, grant-giving foundation which will use public and private resources to foster the process of economic and political reform in the New Independent States. Key objectives in creating the Eurasia Foundation are to reach a wide range of groups quickly with targeted assistance and to increase the numbers, as well as diversity, of groups receiving U.S. government funds.

Time Frame

The Eurasia Foundation received its initial grant from USAID to work in the New Independent States in 1993. This grant agreement is scheduled to end on December 31, 1997. In FY 1996, Eurasia was allocated \$500,000 for Moldova. \$500,000 is requested for both FY 1997 and FY 1998.

Expected Results

Under Eurasia's small grants program, Eurasia will continue to complement USAID's larger development program in Moldova, specifically in the areas of economic reform, government reform and nonprofit sector, and media and communications.

Performance

In FY94 and FY95, Eurasia awarded roughly \$220,000 of small grants in the strategic areas of economic reform, government reform and nonprofit sector, and media and communications.

Overall Progress

In FY94 and FY95, the Eurasia Kiev Regional Office awarded roughly \$220,000 of small grants in Moldova in the areas of economic reform (51%), government reform (33%) and nonprofit sector and media and communications (16%).

ENI's Significant Contributions

The Eurasia project is based on the premise that a free-standing, autonomous private foundation can provide both intellectual leadership and significant assistance in the overall USG effort, private and public, to help Ukraine enter the free world as rapidly and productively as possible. Eurasia's sectoral areas of concentration overlap and support many of the Mission's Strategic Objectives. Eurasia consults with USAID technical staff in order to program their activities to best complement USAID and other donor/organization efforts.

Expected Progress in 1997 and 1998

In Moldova, Eurasia plans on providing small grants in their three main strategic areas, namely, economic reform, government reform and nonprofit sector, and media and communications. In addition targeted activities may include the following areas: 1) business and economic education and training 2) private business development, and 3) electronics communication. Eurasia is actively working to leverage other resources from organizations and private businesses for their activities.

Special Objective Medical Partnership

Rationale

Health care systems in Moldova are deteriorating. They suffer from insufficient funds, centralized bureaucratic control, and lack of up-to-date education. The Medical Partnership program introduces appropriate responses to the difficulties faced by Moldova's health care system by creating institutional and professional linkages between US and Moldovan clinicians, health care managers, other health care professionals and policy analysts. Significant health care issues are addressed through the improvement of the efficiency and effectiveness of health care organization and delivery, and the development and strengthening of existing health management development programs.

Time Frame

The Medical Partnerships began in Moldova in January 1993. They will end in December 1998.

Expected Results

The primary impact will be through the Emergency Medical Service (EMS) Center, which aims to reduce complications from inappropriate and untimely treatment. Other partnership activities will reduce mortality and decrease infection resulting from cardiovascular surgery.

Assistance will expand to include a comprehensive women's health activity. The partnership will also create a model to expand the role of nursing in controlling infection, through improved management skills, education and nursing assessment and intervention. The partnership will initiate the expansion of Emergency Medical Training to include police, firemen and industrial safety personnel.

Performance

The EMS Center has trained and licensed 700 medical practitioners; established a satellite center; began a train-the-trainers program which provided training to student EMS instructors from Moldova, Russia (Moscow), Ukraine (Kyiv), Estonia, and Romania; developed new protocols; and provided new equipment. The Center is now accrediting and certifying country-wide.

Treatment by intensive care teams, trained under the EMS component, have increased 51% for trauma cases.

Cardiac surgery post-operative mortality rates have fallen from 30% to 1.4%.

The number of surgeons performing open-heart surgery using the improved techniques has increase from three to nine. Total number of procedures has increased from 290 to 443. Post-operative complications from infection have fallen from 15% to 8%.

Special Objective

Women's Health/Family Planning

Rationale

The Women's Reproductive Health Initiative (WRHI) is designed to respond to the high maternal/infant mortality and morbidity in Moldova. Maternal death rates in Moldova are five times higher than in Western European countries with similar fertility rates. Approximately 20% of maternal mortality is directly attributed to the dependence on abortion rather than contraceptives for fertility control. Infant mortality is three times higher than in Western European countries and rising. The acute economic crisis in Moldova has had a severe impact on medical care. The WRHI introduces contraceptives as a safer, more economical health intervention.

Time Frame

The WRHI was initially funded for \$400,000 in FY 1995, with activities based on a Reproductive Health assessment completed in 1994. Activities were initiated in Chisinau in February 1996, after earlier assessment visits. In FY 1996, Moldova was allocated \$2.172 million under another Family Planning Earmark; \$2.0 million is being programmed to continue and expand the activities in the WRHI and 172,000 will fund women's health activities under the medical partnership program. Of the FY 1996 earmark for Moldova, \$2.0 million will be obligated by Global in FY 1996 from FY 1995 carryover. The funds are expected to provide reproductive health activity through 1998.

Expected Results

The WRHI works to improve the access and quality of Moldovan Reproductive Health Services through the introduction of modern contraceptives to medical providers and women clients as safer more effective alternatives to abortion. Activities focus on training of trainers, curriculum development, clinical training, service delivery management, and increased public awareness to assist the oblasts to expand and institutionalize reproductive health services beyond the centers and into other oblasts. Assistance is provided in safe maternity care practices and improved breastfeeding practices which reduce infant/maternal mortality and morbidity.

Performance

Under the Women's Reproductive Health Initiative the project sites and later the surrounding oblasts are expected to demonstrate an increase in modern contraceptive use resulting in a 15% decrease in abortion by the end of 1998. In addition, updated family planning and

maternity care training will be fully integrated into the medical education system in project oblasts.

Overall Progress

In 1994 USAID conducted the initial project assessment in Moldova. Since that time, Moldovans have actively participated in the 1994 Reproductive Health Seminar in Kiev, a 1994 Wellstart Breastfeeding training in San Diego, and a 1995 Family Planning Policy Study Tour. Additionally, selected physicians from Moldova have participated in reproductive trainings throughout the NIS. The WRHI in-country activity began in February 1996, with an update in contraceptive technology and a training of trainers.

ENI's Significant Contributions

USAID is providing technical assistance to update family planning, breastfeeding, and maternity care practices and incorporate sustainable training into the medical education system to ensure a constant flow of highly qualified reproductive health care providers. Additionally, USAID is supporting a public education program to inform Moldovans of alternatives to abortion as a means of birth control. USAID also provides contraceptives and limited equipment to support family planning centers in Moldova.

Expected Progress in 1997 and 1998

In late 1996, with FY 1995 carryover funds, the WRHI will expand to include activities aimed at increasing private sector contraceptive sustainability, improving maternity care practices, and increase public awareness of alternatives to abortion as a means of contraception. The existing model sites and oblasts will experience increases in the use of modern contraceptives and a concomitant reduction of abortion. Sustainable family planning and maternity care training will be fully integrated into the medical education system in project oblasts. The WRHI will increase activity supporting indigenous NGOs.

Part III. Resource Requirements
A. Program Funding Request by Strategic Objective

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

For FY 1998, USAID seeks \$1.8 million for continued support of its land privatization strategy in Moldova. This strategy is aimed at achieving full collateral, use of land titles, the execution of land transactions in a fair, open and transparent manner, and a streamlined and centralized system for the recording of land titles. The concentration of activities will, as in the past, focus on urban and rural land privatization, titling and registration systems, and further work in the legal and regulatory environment.

Consequences of a 20% Reduction

A 20% reduction in funding for land privatization would mean a scaling back of expectations in meeting targets. The lowered targets would probably result in smaller pilots and a less ambitious rollout schedule.

SO 1.2 Increased soundness of fiscal policies and fiscal management practices

The resource request for S.O. 1.2 Moldova of \$800,000 for FY 1998 reflects the continuation and, in some cases, the completion of the highly promising initiatives undertaken in FY 1995 and FY 1996 and continuing in FY 1997. These should include the adoption of a comprehensive budget process law and accompanying changes to strengthen the budget preparation process, the implementation of a joint U.S. Treasury-IMF-USAID project to establish a treasury, and the enactment and implementation of a modern tax code that supports economic growth and encourages compliance.

IR 1.2.1 Budgeting and financial management practices are being reformed

The previous U.S. Treasury Advisor drafted a comprehensive budget process law, covering major aspects of budget preparation, adoption and execution at both the national and local levels in Moldova. This law is expected to pass in the Parliament soon, and the current U.S. Treasury Advisor is already working on implementation of aspects of the law, including detailed budget preparation instructions. In addition, this Advisor is overseeing the implementation of most aspects of the treasury project, including budget classification, budget execution, and cash and debt management. He is also supervising the computerization of the central treasury and two pilot regional treasuries, using computer hardware and software provided by USAID. In addition, another U.S. Treasury advisor is engaged in expanding the MOF's government securities program to provide non-inflationary means of funding the budget deficit.

IR 1.2.2 Creation of a market-oriented tax system that encourages compliance

Our second major fiscal initiative comes in the tax area. With respect to tax policy, a USAID-funded team is engaged in the drafting of a single tax code that will modernize and codify the major tax laws, including VAT, Corporate and Individual Income Tax, and Excise Taxes, with accompanying administrative provisions. We expect to meet the GOM's target of having all of the elements of the tax code enacted into law and ready to be implemented as of calendar year 1997. In the area of tax administration, the team is working on providing training, functional specialization and a broader range of enforcement options for the State Tax Service. Also, at the team's urging, a tax analysis unit has been created in the MOF, and a team member is supporting efforts to forecast the revenue impact of the proposed changes in the tax laws. In addition, USAID will be providing technical assistance in the computerization of the tax system as agreed in connection with a \$1.9 million loan from the World Bank to procure the necessary hardware and software.

IR 1.2.3 Parliament acts affirmatively on fiscal reform legislation

Our third initiative is the development of a fiscal and legal analysis capability for the Moldovan Parliament, and especially for the Budget and Finance Committee which has jurisdiction over the budget and tax reform legislation that USAID has been helping the

GOM draft. A USAID-funded team has been advising the Committee on economic reform legislation for over a year, and a proposal developed by this team to establish a Center for Budget and Financial Policy for the Parliament (sort of a combined CBO-Joint Tax Committee) is nearing adoption. USAID will be providing training to the staff of the Center to make sure that the skills of our team are fully transferred, and we will also furnish the necessary start-up computer hardware and software.

Consequences of a 20% Reduction

A 20 percent reduction in funding, or about \$600,000, would severely hamper our ability to complete all of the projects at the Ministry of Finance and would make it especially difficult to honor our commitments to the IMF in the treasury area and to the World Bank on tax system computerization. The development of modern budget and tax systems department at the Ministry of Finance is arguably one of the most critical tasks in the entire USG portfolio, since it forms the basis for economic stabilization and development of the market economy in Moldova. Furthermore, we have been working with a reform-minded Minister of Finance who has provided essential material and political support to our fiscal projects in Moldova, and it is incumbent upon us to finish this part of the program.

SO 1.3 Accelerated development and growth of private enterprises

\$6.55 million is requested for this SO for FY98.

IR 1.3.1 Free availability and flow of business-related information

Approximately \$100,000 of the \$600,000 requested for NewBizNet (request described below) is requested for the continuation of database networks extended to private businesses by the project's business service centers.

IR 1.3.2 Improved application of market-driven business skills

The resource request for this Intermediate Result is \$600,000 for FY98 to complete funding for the NewBizNet program of support to business service centers, local policy support, and business information networks. Primary emphasis will be placed on assuring the sustainability of the centers.

IR 1.3.3 Legal, regulatory and political environment conducive to sustainable enterprise growth

\$600,000 is requested for this Intermediate Result. The funds will ensure that bankruptcy reform continues to benefit from U.S. expertise in developing appropriate legal and regulatory frameworks for the management of a market economy, particularly with respect to: (1) the financial restructuring of troubled enterprises and assisting the Ministry of Justice and the arbitration courts in developing, administering and enforcing new laws; (2) arbitration or other alternative dispute resolution mechanisms; and (3) commercial legal systems, especially the development of company law concepts of fiduciary duty and conflict of interest.

IR 1.3.4 Selected interventions provide a "jump start" to increase firm-level investment, competition and productivity

\$ 0.9 million is proposed for FY 98 for agribusiness partnerships. Moldova is an agricultural country with more than 50% of GDP generated in the sector and much of the remainder generated through agricultural processing and input supply. This program supports the development of private, market-driven joint ventures between U.S. and Moldovan farms and firms to provide: inputs, technical assistance and training to support agricultural production; private, open markets for agricultural output; and private processing enterprises for agricultural products. Joint ventures will be of two types: agricultural service centers and agricultural processing enterprises, which combine U.S. management skills and private financing, Moldovan participation and assets, and USAID supported technical assistance and training. Injecting resources into these two critical bottleneck areas in the Moldovan economy will catalyze the recovery of the dominant sector in the economy and, thereby, further economic reform.

\$4.0 million has been proposed for the West NIS Enterprise Fund in FY98. The Fund will provide equity or debt as appropriate to the risk taken in the investment and will seek a balance of debt and equity investments for its portfolio. In addition to investing USAID-supplied funds, it is hoped the Fund will attract resources from other sources.

Consequences of a 20% Reduction

At this level of funding, a 20% reduction in the program level would have a significant, adverse effect on USAID's ability to achieve the Intermediate Result. The dominance of the Enterprise Fund in the budget means there is almost no room to absorb a 20% reduction without canceling activities and/or closing others down. There are two options. Under the first (shown in the budget tables), the Enterprise Fund absorbs a 20% reduction. But NewBizNet shuts down entirely in Moldova, so that agribusiness partnerships and commercial law, though reduced, may remain significant. Under the second option, the entire reduction would be absorbed by the Enterprise Fund. NewBizNet support to local business centers assisting small and medium-scale enterprises could continue, and agribusiness partnerships as well as commercial law activities would not be reduced. The Enterprise Fund would be requested to re-double its efforts to attract other sources of funding to cover the loss.

SO 1.4 Market-oriented private banking sector developed

The resource request for SO1.4 Moldova, for FY1997 - FY1998 of \$4.5 million will enable AID and its development partners sufficient time to ensure all priorities in the strategic plan have a long enough gestation period to ensure their viability and endurance once AID funding is withdrawn.

IR 1.4.1 Market oriented private banking sector developed

Part of our focus is on deepening the financial sector, specifically through bank specific work which focuses on pilot programs where market imperfections are identified. These activities, in turn will help transfer western human capital to Moldovan bankers and lead to a more competitive, efficient and sophisticated banking system.

Finishing existing projects concerning the financial infrastructure, specifically bank supervision, accounting and a collateral registry will help further develop the financial infrastructure, an essential move if the public is to have confidence in the banking system and use it as a depository for savings (IR 1.4.1.4).

In terms of sequencing, our initial work was in human capital development, the training of bankers in western financial techniques through a centralized bank training facility with our partner, the National Bank of Moldova. Unfortunately, because of budget constraints funding for this project was terminated. Our hope is that other donors will now step in to give some support to this vehicle.. Irrespective, we expect this institute to continue, albeit, at a reduced level.

The emphasis of our program has now changed to participating in facilities to catalyze lending to targeted private entities. \$850,000 has been earmarked over FY 1996-1997 for participation in an EBRD micro business lending facility. We would also like to develop a companion project during the FY 1997-1998 period which focuses on small business lending. Like the similar EU/TACIS project in Ukraine (which is through an EBRD facility) the scope would cover a broader range of technical assistance than credit in order to maximize institution-building opportunities and with the view that credit is only one part of sound banking business practice. While bank specific, the emphasis is still is on human capital development, the training of Moldovan bankers in western techniques.

All projects in this area will be completed by FY1998. The first year of the accounting program has been focused on developing the program at the central bank. For the remainder of the period we will be working on implementation of Internationally Accepted Accounting Standards in the banking system, as well as on other components at the bank which are essential such as bank operations procedures. The supervision focus is also entering into the second phase. The initial focus was on developing the problem bank unit at the NBM. Some work on this will continue but the primary objective will be to build NBM institutional capacity in the area of off-site surveillance. It is projected that this task will finish in mid-

1998. A program is also being started in development of a collateral registry. This is the critical compliment to the work described above where various facilities are put in place by International Financial Institutions to catalyze lending to the private sector.

IR 1.4.3 Transparent and open securities system established

\$1.5 million is being requested as FY98 funding in support of capital markets projects. This proposed level of funding will continue to ensure that transparency, liquidity and integrity are not compromised in the growing securities market. This will be achieved by: allowing for further structural development of the capital market, (including corporate, bank and government securities); support of the secondary securities market (MSE) and the OTC market; augmentation and expansion of role of investment funds, trust companies and broker/dealers and registrars, through the establishment of a central depository; and by enhancing the clearance and settlement system. As a corollary to these efforts, legal documents will drafted to develop a stronger legal foundation for the securities market.

Consequences of a 20% Reduction

A 20 percent reduction in funding would hamper, if not eliminate completely our ability to participate in facilities which encourage private business lending such as the EBRD facility described above. It would also severely impinge on Phase II of the accounting project at the commercial banks. Furthermore, such a reduction will result in a more limited ability to accomplish our goals for strengthening the capital markets infrastructure. For example, SRO development could be stymied from a less intensive effort, and the clearing and settlement area would not be as fully enhanced.

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

IR 1.5.1 Increased profitability of Moldovagas

Approximately \$450,000 is requested by USAID/KIEV for this Intermediate Result for the FY 98 period. This proposed level of funding is anticipated to assist in the final stages of privatization and also improved service to customers under demand side management. As necessary, it would apply to regulations and/or policies needed to support both processes. Given the limited funds for Moldova in this Strategic Objective 1.5, it is considered preferable to apply all of them to this Intermediate Result and to finish the work on 1.5.2 (More efficient, environmentally sound electrical energy generation) in FY 97.

Consequences of a 20% Reduction

Accordingly, a reduction of 20% for funds to Moldova under this strategic objective, which is already underfunded, would seriously undermine our effectiveness for the activity and is not advisable.

Part IV. Special Issues
A. Environmental Issues

There are no issues related to the implementation of Initial Environmental Examinations or Environmental Assessments.

B. New Partnership Initiative

The goal of the New Partnership Initiative (NPI) is to stimulate lasting economic, social and political development by building local institutional capacity in non-governmental organizations (NGOs), competitive small businesses, and democratic local governments. This is to be accomplished by strengthening grassroots capacity as well as by improving the national enabling environment in which private and community action can flourish. Partnerships between U.S. NGOs and local institutions are encouraged to support current development efforts, long-term cooperation and self-sufficiency of local organizations.

The USAID program in Moldova contains a number of activities that fall within the scope of the NPI. Several examples are briefly described below.

NGO Strengthening

- USAID is promoting the active participation of citizens in political and economic decision-making through assistance to NGOs. USAID-funded Counterpart operates an NGO service center to provide technical assistance, training and seed grants to Moldovan NGOs. Over 200 NGO managers have been trained in such areas as proposal development, program management, financial management and organizational development. As a result, the Government of Moldova has begun contracting with NGOs for services formerly provided by the government. A number of NGOs that have benefitted from U.S.-sponsored training are now receiving financial support from other international donors and organizations. USAID is working in particular with NGOs providing sustainable social protection services to vulnerable populations, providing them with seed grants and donating to them U.S. excess medical and emergency supplies to be used as humanitarian assistance.
- USAID is helping the bar association to establish and continue indigenous continuing legal education programs, which prepare the private bar to participate meaningfully in a reformed, market-oriented democratically-based legal system. USAID is also assisting in the establishment of a law library and a database including information on all licensed attorneys in Moldova. The bar association is one of the key points of grassroots support for continuing legal reforms, including reforms that guarantee citizens' civil rights and a more market-oriented system.
- Through the Hospital Partnership program, USAID is building the capacity of the Regional Emergency Medical Services Training Center, which is expected to train approximately 400 people annually in the utilization of emergency medical services equipment provided through the partnership program. The partnership is also contributing to the reorganization of the medical education system and training health care professionals, resulting in a number of clinical improvements.

Small Business Strengthening

- USAID assistance has enabled Moldova to complete its privatization program of more than 1600 small, medium and large enterprises, including the distribution of 3.6 million national patrimonial bonds to all Moldovan citizens and a nationwide public education program on how they can be used to acquire shareholder rights in a variety of enterprises.
- USAID has begun post-privatization assistance, including land privatization and titling, enterprise restructuring, break-up of sector monopolies and the establishment of internationally accepted accounting standards that will facilitate the participation of Moldovan citizens in their country's economic activity.
- USAID has supported the establishment of a securities market regulatory body and has assisted in the passage of comprehensive regulations concerning the safekeeping and confidentiality of records, share transfer procedures, independent registrars and shareholder reporting.
- USAID has established several regional business service centers which are providing training and advisory services directly to current and prospective entrepreneurs. These centers also offer access to information and data for improved planning and decision making, and are developing local advocacy groups that lobby the municipal government to enact laws, policies and regulations that provide a better enabling environment for business.
- USAID is assisting state and collective farms to privatize and is working with private farmers and farmer associations to improve farm management methods and marketing at the local level. USAID is also helping small agribusinesses to improve processing, packaging and management and to identify joint ventures. Furthermore, USAID is sponsoring training for professors of agriculture in market-based agribusiness.
- Through the West NIS Enterprise Fund, USAID is promoting equity investments in private business and stimulating lending to small businesses. USAID is working with the EBRD on the establishment of a micro-enterprise lending program.
- USAID is providing support for housing privatization and as part of that, promoting the use of private firms for maintenance and management.
- The USAID-supported Banker Training Center is helping to develop and strengthen the skills of professional bankers.
- USAID is providing assistance to improve overall tax and fiscal policy, management information systems, and tax law to improve the fairness and efficiency of tax administration and make tax laws simpler and more consistent.
- USAID is assisting in the demonopolization of Moldovagas into a series of competitive companies by providing a corporatization strategy, new corporate organization plans, training in financial management and accounting, as well as a

procurement plan for management systems equipment.

Democratic Local Government Strengthening

- USAID is assisting Moldova in the adoption of new presidential and local election laws. In the absence of a permanent election commission, USAID assistance has increased the participation of the media, civic activists and politicians in shaping the policy debate concerning the election process.
- With USAID technical assistance, a Judicial Reform Act was adopted which made the judiciary substantially more independent. USAID is assisting the judiciary to increase its legal library and publish a journal of practical and legal discussion for judges and lawyers in order to promote the independence and effectiveness of the judiciary.

Part V. Tables and Charts

Agency Table 1
ALL RESOURCES TABLE
USAID/Moldova
(\$000)

Funding Category	FY 1996*	FY 1997**	FY 1998	
			Base***	Base - 20%
FSA				
Economic Growth	17,700	21,400	11,800	9,440
Of which: Field Support (INCLUDES ENI SOS 1.1 TO 1.5)				
Population/Health	-	-	-	-
Of which: Field Support (INCLUDES ENI SO 3.2)				
Environment	-	-	-	-
Of which: Field Support (INCLUDES ENI SO 3.3)				
Democracy	-	-	-	-
Of which: Field Support (INCLUDES ENI SOS 2.1 to 2.3)				
Humanitarian Assistance/Transition	-	-	-	-
Of which: Field Support (INCLUDES ENI SOS 3.1)				
Special Initiatives/Crosscutting Programs	6,640	5,600	3,200	2,560
GRAND TOTAL	24,340	27,000	15,000	12,000

Note:

FY 96 budget includes \$4 million in Performance Funds for privatization and economic restructuring activities, and \$2 million in Performance Funds (included under "Special Initiatives/Crosscutting Programs") to be used for democracy/training activities.

* For FY 1996 budget allocations based on the FY 1996 Appropriations Act have been used.

** For FY 1997 allocations based on the FY 1997 OMB passback level have been used.

*** Base is defined as allocations based on the FY 1997 passback level.

**Annex 3
GLOBAL FIELD SUPPORT**

Mission: Strategic Objective	Field Support: Activity Number & Title	Priority *	Duration	Estimated Funding (\$000)							
				FY 1996**		FY 1997***		FY 1998			
				Obligated by *****:		Obligated by *****:		Base****		Base-20%	
				Global Bureau	Operating Unit	Global Bureau	Operating Unit	Global Bureau	Operating Unit	Global Bureau	Operating Unit
S.O.1: Enhanced Economic Participation	936-3051 Contraceptive Social Marketing	Medium-high	3 years (1996-98)	20	—	30	—	20	—	40	—
GRAND TOTAL.....				20	—	30	—	20	—	40	—

* For Priorities use high, medium-high, medium, medium-low, low
 ** For FY 1996, use operating bureau budget allocations based on the FY 1996 Appropriations Act, in the case of PL480, use appropriations from the Agriculture Appropriations Act.
 *** For FY 1997, use operating bureau allocations based on the FY 1997 OMB passback level.
 **** Base is defined as operating bureau allocations based on the FY 1997 passback level.
 ***** If the funding source is unknown, show all the funding as Obligated by Global Bureau.

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Mission Table 1.

Moldova

Resource Request By Project, FY 95 - FY 98

(Thousands of Dollars)

Project No.	PROJECT COMPONENTS	FY 95	FY 95 carryover	FY 96	FY 97	FY 98	FY 98-20%
110-0001	Special Initiatives						
	1.1.0 EMERGENCY HUMANITARIAN ASSISTANCE	0		200	200	200	160
	1.4 Pharmaceuticals, Vaccines Supply						
	1.2.0 TECH SUPPORT / PD&S	0					
	1.3.0 CROSS-SECTORAL PILOT PROGRAMS						
	Sub-Total	0		200	200	200	160
110-0002	Energy						
	2.1 Pricing and National Policy						
	2.2 District Heating & Energy Efficiency						
	2.3 Energy Subsector Restructuring						
	3.2 Privatization and Restructuring	681	1,000		1,000	450	360
	2.4 Nuclear Safety (EBRD Part)						
	2.5 Regional Trade & International Markets						
	2.6 Program Design and Management						
	Sub-Total	681	1,000		1,000	450	360
110-0003	Environment						
	3.1 Environmental Policy & Institution Building						
	3.2 Health Risks						
	3.3 Public Awareness & Environmental Accountability						
	3.5 Natural Resource Management & Biodiversity						
	3.6 Program Design and Management						
	Sub-Total	0					
110-0004	Health Care						
	4.1 Medical Partnerships	400	160	340	500		
	4.2 Vaccines & Pharmaceutical Security	600					
	4.3 Health Monitoring						
	4.4 Finance and Service Delivery Alternatives	300			200	300	240
	4.5 Women's Health/Family Planning	400	2,000				
	4.6 Program Design and Management						
	Sub-Total	1,700	2,160	340	700	300	240

MOLDOVA Project No.	PROJECT COMPONENTS	FY 95	FY 95 carryover	FY 96	FY 97	FY 98	FY 98-20%
110-0005	Private Sector						
	5.1 Privatization	1,113			1,500		
	5.2 Land Markets	50		1,300	2,500	1,500	1,500
	5.3 Capital Markets	3,036	1,000	1,000	1,500	1,500	1,400
	5.4 Public Education for Free Market		1,924	1,000			
	5.5 Post Privatization Assistance to Enterprises			1,100	900		
	5.6 Policy, Legal and Regulatory Reform		1,935		1,700		
	5.7 Small and New Business		2,604			600	
	5.8 Trade and Investment						
	5.9 Program Design and Management	499		300	600	250	180
	Sub-Total	4,698	7,463	4,700	8,700	3,860	3,080
110-0006	Food Systems						
	6.1 Storage System						
	6.2 Marketing Efficiency						
	6.3 Agribusiness Partnerships			2,000	2,000	900	720
	6.5 Program Design and Management						
	Sub-Total	0		2,000	2,000	900	720
110-0007	Democratic Reform						
	7.1 Political Process	200		500			
	7.2 Rule of Law	300					
	2.1 Rule of Law	300		400	500	200	160
	7.3 Public Administration / Local Government						
	7.4 Civil Society (PVO/NGO)			100			
	7.5 Independent Media						
	7.6 Program Design and Management	100					
	Sub-Total	600		1,000	500	200	160
110-0008	Housing						
	8.1 Market-based Housing Sector						
	8.3 Program Design and Management						
	Sub-Total	0					
110-0009	Economic Restructuring						
	9.1 Fiscal Reform:	200		2,100	2,100	800	640
	1.1 Fiscal Activities	200		1,700	1,600	500	400
	1.2 Treasury			400	500	300	240
	1.3 Fiscal Federalism (Bahl)						
	9.2 Financial Sector Reform:	1,400	500	900	2,200	1000	800
	2.1 Financial Sector TA/Monetary	750			1,900	700	560
	2.2 Financial Sector Training	600					
	2.3 Financial/Monetary System (FSVC)	50			300	300	240
	9.3 Market Environment	280			1,200	600	480
	3.1 Market Environment	280					
	9.4 Program Design and Management	247			200	200	160
	Sub-Total	2,127	500	3,000	5,700	2,600	2,080

MOLDOVA Project No.	PROJECT COMPONENTS	FY 95	FY 95 carryover	FY 96	FY 97	FY 98	FY 98-20%
110-0010	Eurasia Foundation						
	Sub-Total	0		500	500	500	400
110-0011	11.1 W/NIS Enterprise Fund			4,000	4,000		
	11.3 Small Bus (EBRD)						
	Sub-Total	0		4,000	4,000	4,000	3,200
110-0012	Exchanges & Training						
	12.1 Participant Training	445			500	500	400
	Sub-Total	445			500	500	400
	All Project Total	10,251	11,123	16,740	23,800	13,500	10,800
	Performance Fund						
	632(A) Transfers						
	Direct Trade and Investment - Commerce				200		
	Training and Exchanges - USIA			1,200	1,200		
	Volunteers - Peace Corps			1,100	1,100		
	Law Enforcement			300	300		
	Nuclear Safety - DOE						
	Science Centers						
	FBI						
	Humanitarian Transport						
	Warsaw Initiative: State				400		
	Sub-Total	0		2,600	3,200	1,600	1,200
	Transfers to Other USAID Bureaus						
	Farmer-to-Farmer - BHR Bureau						
	Pesticides - Global Bureau						
	Training (TESS)- Global Bureau						
	Sub-Total	0					
	Parking Fine Withholding						
	COUNTRY TOTAL	10,251	11,123	18,340	27,000	16,000	12,000

Mission Table 2.

Moldova

Resource Requests by Strategic Objective, FY 95- FY 98
STRATEGIC ASSISTANCE AREAS
 (Thousands of Dollars)

	FY 95	FY 95 carryover	FY 96	FY 97	FY 98	FY 98-20%
STRATEGIC ASSISTANCE AREA 1:						
Economic Restructuring	7,506	8,963	13,700	21,400	11,800	9,440
STRATEGIC ASSISTANCE AREA 2:						
Democratic Transition	0	0	0	0	0	0
STRATEGIC ASSISTANCE AREA 3:						
Social Stabilization	0	0	0	0	0	0
STRATEGIC ASSISTANCE AREA 4:						
Special Initiatives/Crosscutting Programs	2,745	2,160	4,640	5,600	3,200	2,560
Performance Fund	0	0	0	0	0	0
SAA, GRAND TOTAL	10,251	11,123	18,340	27,000	15,000	12,000
Parking Fine Withholding	0	0	0	0	0	0
Grand Total	10,251	11,123	18,340	27,000	15,000	12,000

Moldova

Resource Requests by Strategic Objective, FY 95- FY 98
STRATEGIC ASSISTANCE AREAS
 (SAA in Percent)

	FY 95	FY 95 carryover	FY 96	FY 97	FY 98	FY 98-20%
STRATEGIC ASSISTANCE AREA 1:						
Economic Restructuring	73.2%	80.6%	74.7%	79.3%	78.7%	78.7%
STRATEGIC ASSISTANCE AREA 2:						
Democratic Transition	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
STRATEGIC ASSISTANCE AREA 3:						
Social Stabilization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ASSISTANCE AREA 4:						
Special Initiatives/Crosscutting Programs	26.8%	19.4%	25.3%	20.7%	21.3%	21.3%
Performance Fund	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SAA, GRAND TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

STRATEGIC ASSISTANCE AREA 1: ECONOMIC RESTRUCTURING

Foster the emergence of a competitive market oriented economy in which the majority of economic resources is privately owned and managed.

STRATEGIC OBJECTIVE	FY 95	FY 95 carryover	FY 96	FY 97	FY 98	FY 98-20%
1.1 Increased Transfer of State-owned Assets to the Private Sector						
5.1 Privatization	1,113			1,500		
5.2 Land Markets	50		1,300	2,500	1,500	1,500
5.4 Public Education for Free Market		1,924	1,000			
Sub-total, 1.1	1,163	1,924	2,300	4,000	1,500	1,500
SO 1.1 in Percent	11.3%	17.3%	12.5%	14.8%	10.0%	12.5%
1.2 Increased Soundness of Fiscal Policies and Fiscal Management Practices						
9.1 Fiscal Reforms	200		2,100	2,100	800	640
Sub-total, 1.2	200	0	2,100	2,100	800	640
SO 1.2 in Percent	2.0%	0.0%	11.5%	7.8%	5.3%	5.3%
1.3 Accelerated Development and Growth of Private Enterprises						
5.5 Post-Privatization Assistance to Enterprises			1,100	900		0
5.6 Policy, Legal and Regulatory Reform		1,935		1,700		0
5.7 Small and New Business		2,604			600	0
5.8 Trade and Investment					0	0
5.9 Program Design and Management	499		300	600	250	180
6.3 Agribusiness Partnerships			2,000	2,000	900	720
9.3 Market Environment	280			1,200	600	480
9.4 Program Design and Management	247		0	200	200	160
11.1 Enterprise Funds			4,000	4,000	4,000	3,200
Sub-total, 1.3	1,026	4,539	7,400	10,600	6,550	4,740
SO 1.3 in Percent	10.0%	40.8%	40.3%	39.3%	43.7%	39.5%
1.4 A More Competitive and Market-responsive Private Financial Sector						
5.3 Capital Markets	3,036	1,000	1,000	1,500	1,500	1,400
9.2 Financial Sector Reform	1,400	500	900	2,200	1,000	800
Sub-total, 1.4	4,436	1,500	1,900	3,700	2,500	2,200
SO 1.4 in Percent	43.3%	13.5%	10.4%	13.7%	16.7%	18.3%
1.5 A More Economically Sound and Environmentally Sustainable Energy System						
2.2 District Heating & Energy Efficiency					0	0
2.3 Energy Subsector Restructuring	681	1,000		1,000	450	360
2.6 Program Design and Management					0	0
Sub-total, 1.5	681	1,000	0	1,000	450	360
SO 1.5 in Percent	6.6%	9.0%	0.0%	3.7%	3.0%	3.0%
STRATEGIC AREA 1 TOTAL						
Sub-total, SAA 1	7,506	8,963	13,700	21,400	11,800	9,440
SAA 1 in Percent	73.2%	80.6%	74.7%	79.3%	78.7%	78.7%

STRATEGIC ASSISTANCE AREA 2: DEMOCRATIC TRANSITION

Support the transition to transparent and accountable governance
and the empowerment of citizens through democratic political processes

STRATEGIC OBJECTIVE	FY 95 Obs	FY 95 Carryover	FY 96	FY 98 Guidance	FY 98 Guidance-20%
2.1 Increased, better-informed citizens' participation in political and economic decision-making					
7.1 Political Process					
3.3 Public Awareness & Environmental Accountability					
7.4 Civil Society (PVO/NGO)					
7.5 Independent Media					
Sub-total: 2.1					
SO 2.1 In Percent					

2.2. Legal systems that better support democratic processes and market reforms					
7.2 Rule of Law					
632 Transfer: Law Enforcement					
7.6 Program Design and Management					
Sub-total: 2.2					
SO 2.2 In Percent					

2.3 More effective, responsible and accountable local government					
7.3 Public Administration/ Local Government					
Sub-total: 2.3					
SO 2.3 In Percent					

STRATEGIC AREA 2 TOTAL					
SAA 2 In Percent					

STRATEGIC ASSISTANCE AREA - 3: SOCIAL STABILIZATION

Respond to humanitarian crises and strengthen the capacity to manage the human dimension of the transition to democracy

STRATEGIC OBJECTIVE	FY 95 Obs	FY 95 Carryover	FY 96	FY 98 Guidance	FY 98 Guidance-20%
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3.1 Reduced human suffering and crisis impact					
1.1 Emergency Humanitarian Assistance					
1.3 Cross-Sectoral Pilot Programs					
Sub-total, 3.1					
SO 3.1 in Percent					

3.2 Improve the Sustainability of Social Benefits and Services					
4.2 Vaccines & Pharmaceutical Security					
4.3 Health Monitoring					
4.4 Finance and Service Delivery Alternatives					
4.6 Project Design and Management					
6.4 Pvt'zd Farm Support (Russia)					
Sub-total, 3.2					
SO 3.2 in Percent					

3.3 Reduced environmental risks to public health					
2.4 Nuclear Power Safety (EBRD)					
3.2 Health Risks					
3.4 Aral Sea Initiative					
3.6 Program Design and Management					
632 Transfer: Nuclear Safety (DOE)					
632 Transfer: Science Transfers					
Sub-total, 3.3					
SO 3.3 in Percent					

STRATEGIC AREA - 3: TOTAL	0	0	0	0	0
SAA 3 in Percent	0.0%	0.0%	0.0%	0.0%	0.0%

STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS/SPECIAL INITIATIVES

STRATEGIC OBJECTIVE	FY 95	FY 95 carryover	FY 96	FY 97	FY 98	FY 98 -20%
4.1 Special Initiatives						
1.1 Emergency Humanitarian Assistance			200	200	200	160
4.1 Medical Partnerships	400	160	340	500	0	0
4.2 Vaccines & Pharmaceutical Security	600				0	0
4.4 Finance & Service Delivery Alternatives	300			200	300	240
4.5 Women's Health / Family Planning	400	2,000			0	0
7.1 Political Processes	200		500		0	0
7.2 Rule of Law	300		400	500	200	160
7.4 Civil Society			100		0	0
7.6 Program Design and Management	100				0	0
632 Transfer: Law Enforcement			300	300	0	0
632 Transfers: Commerce				200	0	0
632 Transfers: Peace Corps			1,100	1,100	0	0
632 Transfers: USIA Training & Exchanges			1,200	1,200	0	0
632 Transfer: Warsaw Initiative				400	0	0
632(A) Transfers to other agencies					1,500	1,200
Sub-total, 4.1	2,300	2,160	4,140	4,600	2,200	1,760
SO 4.1 in Percent	22.4%	19.4%	22.6%	17.0%	14.7%	14.7%

4.2 Crosscutting Programs						
12.1 Participant Training	445			500	500	400
10.0 Eurasia Foundation			500	500	500	400
Sub-total, 4.2	445	0	500	1,000	1,000	800
SO 4.2 in Percent	4.3%	0.0%	2.7%	3.7%	6.7%	6.7%

ASSISTANCE AREA - 4: TOTAL	2,745	2,160	4,640	5,600	3,200	2,560
SAA 4 in Percent	26.8%	19.4%	25.3%	20.7%	21.3%	21.3%

Strategic Objective Teams

S.O. 1.1 Increased transfer of state-owned assets to the private sector.

Core Team

Mike Kaiser, USAID/Kiev, Team Leader
Paul Morris, USAID/Kiev (Moldova)
Loretta Williams, ENI/PER/NISP
Walter Coles, ENI/PER/NISP
Felix Shklyaruk, USAID/Kiev

Expanded Team Members

Pat Sommers, USAID/Kiev
Ceslav Ciobanu, Minister of Privatization
Gheorghe Efros, Executive Director, Agency for Restructuring Enterprises
World Bank
EU TACIS
Contractors
Econ Counselor, US Embassy, Chisinau

S.O. 1.2 Increased soundness of fiscal policies and fiscal management practices.

Core Team

Elinor Bachrach, USAID/Kiev, Team Leader
Laurie Landy, USAID/Kiev
Paul Morris, USAID/Kiev
Yaro Kulchyckyj, USAID/Kiev
Margaret Pollack, ENI/PER

Expanded Team Members

Pat Sommers, USAID/Kiev
DAI
EU-TACIS
IFC
Ministry of Economy
Members of Parliament (selected)
Richard Laliberte, KPMG advisor at Ministry of Finance
Valeriu Citan, Minister of Finance
Lynge Nielson, Resident Representative, IMF
Econ Counselor, US Embassy, Chisinau

S.O. 1.3 Accelerated development and growth of private enterprises

Core Team

Steve Hadley, USAID/Kiev, Team Leader
Harry Walters, USAID/Kiev
Paul Morris, USAID/Kiev (Moldova)
Olha Holoyda, USAID/Kiev

Karrye Braxton, USAID/Kiev
Ivan Shvets, USAID/Kiev
Jim Neeley, USAID/Kiev
Paul Novick, ENI/ED
Dennis Sharma, ENI/ED
Victor Andrievsky, USAID/Kiev

Expanded Team Members

World Bank
EU-TACIS
Charles Uphaus, ENI/ED
Marcus Winter, ENI/ED
contractors
Econ Counselor, US Embassy, Chisinau

S.O. 1.4 A more competitive and market-responsive private financial sector.

Core Team

Tom Downen, USAID/Kiev, Team Leader
Laurie Landy, USAID/Kiev
Paul Morris, USAID/Kiev
Mike Kaiser, USAID/Kiev
Vicky Wohlsen, ENI/PER/NISP
Walter Coles, ENI/PER/NISP
Bryan Kurtz, ENI/PER
Kim McKeon, ENI/PER
Olha Holoyda, USAID/Kiev
Victor Stetsenko, USAID/Kiev

Expanded Team Members

Pat Sommers, USAID/Kiev
Ministry of Finance
Administration of President
Some Comissions of Supreme Rada
AntiMonopoly Committee
EU TACIS
KPMG/Barents

Price Waterhouse
World Bank
Leonid Talmaci, Governor National Bank of Moldova
Pavel F. Vizer, President, Intreprinzbank
Grigore C. Furtuna, President, Agroindbank
Jim Parks, Resident Representative, World Bank
Gheorghe Calcyi, Deputy Chairman, State Commission of Securities Market
Econ Counselor, US Embassy, Chisinau

S.O. 1.5 A more economically sound and environmentally sustainable energy system.

Core Team

Pat Shapiro, USAID/Kiev, Team Leader
Paul Morris, USAID/Kiev
Andrei Parinov, USAID/Kiev
Vasile Filatov, USAID/Kiev
Bob Archer, ENI/EEUD/EI
Bob Ichord, ENI/EEUD/EI
Mike Rossinsky

Expanded Team Members

Pat Sommers, USAID/Kiev
Lea Swanson, USAID/Kiev
Veaceslav Kilat, Deputy Director General, Department of Energy
Sergiu Fandofan, Director General, Department of Environmental Protection
Ion T. Komendant, Head, Energy Laboratory, Academy of Sciences
Econ Counselor, US Embassy, Chisinau

MOLDOVA 1.1: Increased transfer of state owned assets to the private sector.

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
Strategic Objective 1.1: Increased transfer of state owned assets to the private sector.								
1. Percentage of GDP generated by the private sector. Source: World Bank	Definition: private sector GDP Unit: percentage	1993	0	TBD		TBD	TBD	TBD
IR1.1.1: Medium and large state enterprises fully auctioned for national patrimony bonds								
1. Number of enterprises privatized (from 40-100% of their assets under private control). Source: Ministry of Privatization (MOP)	Definition: the target of 1142 enterprises = 60% of the country's industrial assets Unit: cumulative number	1993	0	1142	1142	Not applicable - the activity was completed on 11/30/95		
2. Additional assets of enterprises formerly owned by the state transferred to the private sector (some of the remaining shares are available for cash sale). Source: MOP	Definition: value of additional statutory capital transferred Unit: TBD	TBD	TBD	TBD		TBD	TBD	TBD

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.1.1.1: People participate in enterprise auctions.								
1. Number of privatization bonds picked up by the public. Source: MOP	Definition: a total of 3 million privatization bonds were issued Unit: cumulative percentage	1993	0	100	98	Not applicable - the activity was completed on 11/30/95		
2. Number of privatization bonds invested. Source: MOP	Definition: invested = of 3 million patrimony bonds issued, cumulative percentage redeemed for shares Unit: cumulative percentage	1993	0	100	93	Not applicable - the activity was completed on 11/30/95		
IR1.1.2: Small-scale state enterprises sold.								
1. Number of enterprises sold. Source: MOP	Definition: 100% of statutory capital transferred for each enterprise Unit: cumulative number	1993	0	1,200	1,393	Not applicable - the activity was completed on 11/30/95		

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.1.3: Housing units are privately owned.								
1. Number of units privatized. Source: MOP	Definition: number of privatized apartments Unit: cumulative number	1993	0	180,000		TBD	TBD	TBD
Note: GOM's Privatization Law was recently amended to continue the use of patrimony bonds to purchase apartments.								
IR 1.1.4: Land is privatized (urban, rural).								
1. State collective farms broken up. Source: MOP	Definition: multiple private owners Unit: number of farms	1995	0	70		TBD	TBD	TBD
2. Number of rural land titles issued to individual members of collective farms. Source: MOP	Definition: title shows change from state property to private ownership Unit: cumulative number	1995	0	TBD		TBD	TBD	TBD

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
3. The number of enterprises gaining title to land. Source: MOP	Definition: number of land titles issued to private enterprises Unit: cumulative number: A. Rural, B. Urban	A. 1996	0	0		TBD	TBD	TBD
		B. 1996	0	0		TBD	TBD	TBD
4. The number of transactions (sales) to 3rd parties. Source: MOP	Definition: Unit: cumulative number	1996	0	0		TBD	TBD	TBD
IR 1.1.4.1: Mechanisms for conveyance of land are operational.								
1. Number of land auctions, lotteries, tenders, etc. held Source: MOP	Definition: Unit: cumulative number for S. Urban and B. Rural	A. 1995	0	TBD		TBD	TBD	TBD
		B. 1995	0	TBD		TBD	TBD	TBD

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.1.4.2: Land titling and registration system is functioning.								
1. The number of titles issued. Source: Bureau of Technical Inventory (BTI), National Agency on Geodesy, Cartography & Cadastre (NAGCC) and Ministry of Agriculture Land Arrangement Service (LAS)	Definition: title allows sale and mortgage rights of adjacent excessive land Unit: cumulative number	1995	0	3		15	115	350
Note: BTI will initially issue urban land titles. Ministry of Agriculture LAS will initially issue agricultural/rural titles. NAGCC: BTI and LAS will eventually merge under to come under the authority of the NAGCC.								
IR 1.1.4.3: Legal framework enables land privatization.								
1. Transaction fees for privatization reduced Source: MOP, Parliament	Definition: transaction fees based on productivity coefficients of old economic order are abandoned Unit: Yes/No - qualitative assessment as to if an improved system is implemented	1995	No	Yes		Yes	Yes	Yes

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
2. Land code amended Source: Parliament	Definition: land code allows private sale of land Unit: Yes/No	1996	No	No		No	Yes	N/A
3. Land regulations implemented. Source: MOP, NAGCC	Definition: regulations adopted to streamline process Unit: Yes/No	1995	No	TBD		TBD	TBD	TBD

Strategic Objective 1.2: Moldova

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
Strategic Objective 1.2: Increased soundness of fiscal policies and fiscal management practices.								
1. GOM meets IMF deficit targets Source: IMF Resident Representative	Definition: Budget deficit does not exceed limit in IMF program, according to IMF definition Unit: Yes/No	1995 (3.4% target)	No (5.5% actual)	Yes		Yes	Yes	Yes
IR 1.2.1: MOF budgeting and financial management practices are reformed.								
1. Comprehensive budget process law: implemented, following adoption. Source: Parliament, MOF-Budget Dept.	Definition: Covers State budget classification, preparation, adoption, execution, control and auditing, plus local government budgets and State debt authority Unit: Yes/No	1995	No	No		Yes	Yes	Yes

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.2.1.1 Budget preparation process is strengthened.								
1. State budget revenues equal or exceed forecast levels Source: MOF-Budget Dept.	Definition: as per adopted budget Unit: Yes/No	1995	No	No		No	Yes	Yes
IR 1.2.1.1.1: Macroeconomic forecasting capability is improved. [IMF]								
1. Government's budget includes a statement of economic policy and an explicit statement of the budget's economic assumptions. Source: MOF-Budget Dept.	Definition: as provided in draft budget process law and explanatory notes Unit: Yes/No	1995	No	Yes		Yes	Yes	Yes
IR 1.2.1.1.2: Budget meets international standards.								
1. Government adopts new budget and accounting classification structure that furthers management accountability, control over resources, and international comparability of data. Source: IMF/MOF-Treasury	Definition: New classification introduced for: Budget formulation Budget execution. Unit: Yes/No	1995						
			No	Yes				
			No	No		Yes		

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.2.1.1.3 Budget preparation procedures are streamlined.								
1. Aggregate and ministry expenditure targets are set at initial stages of budget process, in accordance with macroeconomic forecast Source: MOF-Budget Dept.	Definition: as presented in MOF budget instructions Unit: Yes/No	1995	No	Yes				
IR 1.2.1.2: Treasury system that integrates budget execution, accounting, cash and debt management is implemented [IMF]								
1. Treasury organization adopted along lines recommended by joint Treasury, USAID, and IMF mission. Source: MOF-Treasury	Definition: Unit: Yes/No	1995	No	Yes		Yes	Yes	Yes
2. Bank accounts of State organizations related to State budget expenditures or collection of State budget revenues are closed or otherwise taken over by the Treasury Source: MOF-Treasury	Definition: all such accounts brought under control of the Treasury Unit: number of accounts moved to Treasury (cumulative)	1995	800 accts	200		600	800	

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.2.1.2.1: Computerized treasury system is operational.								
1. Pilot treasury system is implemented. Source: MOF-Treasury	Definition: pilot system linking two regional treasuries with the operations of the central treasury is installed and tested Unit: Yes/No	1995	No	Yes				
2. Treasury system is fully deployed. Source: MOF-Treasury	Definition: operating system installed and fully tested. Unit: % completion of Treasury system project	1995	0	40		100		
IR 1.2.1.2.2: Financial forecast and cash management are strengthened.								
2. Cash forecasting model and procedures are adopted by Cash Management Unit established in the Treasury Source: MOF-Treasury	Definition: modeling tools selected, staff trained, data loaded, analysis and write up procedures implemented. Unit: Yes/No	1995	No	Yes				

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.2.1.2.3: Government debt management system is established.								
1. Auditable data base covering all government debt, including debt service schedules and contingent liabilities, is created. Source: MOF-Treasury	Definition: total outstanding domestic and external State debt, interest payable, interest expense, total outstanding State guarantees and associated defaults and contingent liabilities. Unit: Yes/No		No	Yes				
2. Percent of deficit financed by government securities increases Source: MOF-Securities Dept.	Definition: Unit: percent	1995	33	60		70	80	90
IR 1.2.2: A market-oriented tax system that encourages compliance is created.								
1. Definitions of taxable income are standardized for all taxpayers Source: MOF-Tax Analysis Unit	Definition: Unit: Yes/No	1995	No	Yes				

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.2.2.1 Tax system supports economic growth								
1. Income tax laws (corporate and individual) are revised using international standards and combined into a consistent legal framework. Source: Parliament, STS	Definition: income tax laws contained in single tax code passed by Parliament Unit: single income tax law	1995	35 laws exist	single law				
2. Export earnings rise due to modernization of VAT law (from origin to destination base). Source: MOS	Definition: inflation-adjusted rises in export earnings over prior year are higher following enactment Unit: Yes/No	1995	No	No		No	Yes	Yes
IR 1.2.2.2 Tax laws are fairly and efficiently administered								
1. Ratio of cost of tax administration to tax collection decreases. Source: STS	Definition: budget of tax administration unit as proportion of total taxes collected decreases Unit: Yes/No	1995	No	No		No	Yes	Yes

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.2.2.2.1 Tax system is computerized.								
1. Proportion of tax administration transactions carried out through computerized system. Source: STS	Definition: percentage of total transactions Unit: percent	1995	0	5		25	45	75
IR 1.2.3: Parliament acts affirmatively on budget and tax reform legislation.								
1. Budget process law is adopted. Source: Parliament-Budget and Finance Committee	Definition: law establishes procedures and deadlines for executive and legislative action on the budget Unit: drafted/submitted/passed	1995	drafted	submitted		passed		
IR 1.2.3.1 Budget and Finance Committee's deliberation on fiscal legislation is improved.								
1. Analytic reports prepared on major budget programs with policy recommendations Source: Parliament-CBFA, Budget and Finance Committee	Definition: for use in committee decision-making Unit: number of reports	1995	None	5		10	12	12

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.2.3.2 Center for Budgetary and Financial Analysis is operational								
1. Independent budget analysis is conducted to support Budget and Finance Committee and Parliament's deliberations. Source: CBFA, Budget and Finance Committee	Definition: CBFA provides budget reports required by budget process law (following enactment) Unit: Yes/No	1995	No	No		Yes	Yes	Yes

**Moldova: SO 1.3: Accelerated development and growth of private enterprises.
PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	CALENDAR YEARS									
		BASELINE DATA		1996		1997		1998		1999	
		YEAR	VALUE	Target	Actual	Target	Target	Target	Target	Target	
Strategic Objective 1.3: Accelerated development and growth of private enterprises.											
1. Number of private sector businesses operating and generating employment. Source: Ministry of Labor	Definition: number of full-time employees at private sector firms Unit: number	1995	TBD	TBD		TBD	TBD	TBD	TBD	TBD	TBD
IR 1.3.1: Free availability and flow of business-related information.											
1. Circulation of top two business periodicals in Moldova. Source: periodical circulation	Definition: number of printed copies Unit: number of copies (000s)	1996	TBD	TBD		TBD	TBD	TBD	TBD	TBD	TBD
IR 1.3.1.1: Business networks expanded.											
1. Number of subscribers/programs/organizations involved. Source: DAI/NewBizNet	Definition: number of subscribers to business network of NewBizNet program Unit: number	1996	25	100		200	1,000	2,000			

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEARS				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
2. Number of businesses assisted through networks. Source: DAI/NewBizNet	Definition: number of non-subscribing businesses who pay for selected information from NewBizNet business network Unit: number	1996	50	75		150	150	150
IR 1.3.2: Improved application of market-driven business skills.								
1. Number of business service companies. Source: Ministry of Economy, Ministry of Statistics	Definition: business service licensed to operate as defined by Ministries as percentage of all businesses licensed (Note: target must wait for expected new registration regulations) Unit: % increase from baseline	1996	TBD	TBD		TBD	TBD	TBD
IR 1.3.2.1: Business training widely available.								
1. Number of graduates/trainees. Source: Ministry of Education	Definition: number of MBA graduates yearly Unit: number	1995	50	100		500	1,000	1,500

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEARS				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.3.2.2: Business management consulting industry developed.								
1. USAID-assisted consulting firms demonstrate ability to secure business clients. Source: TBD	Definition: number of paid engagements per each of six USAID-assisted consulting firms Unit: number	1995	0	TBD		TBD	TBD	TBD
2. Number of new entry business consultants. Source: TBD	Definition: number of professionals providing consulting services for a fee Unit: number	1995	0	TBD		TBD	TBD	TBD
IR 1.3.2.3: International accounting standards utilized by enterprises.								
1. Number of professionally certified and dues-paying members of the self-regulating organizations (SROs) working within enterprises. Source: SROs	Definition: certified accountants and auditors Unit: number of persons	1995	0	0		30	70	150

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEARS				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
2. Number of companies listed on OTC market with financial statement conforming to IAS standards as defined by State Commission on Securities Markets. Source: Securities Commission	Definition: number of OTC companies submitting financial statements that meet standards Unit: number	1995	0	0		20	40	70
IR 1.3.3: Legal, regulatory and political environment conducive to sustainable enterprise growth.								
1. Number of legally registered firms grows. Source: Ministry of Statistics	Definition: yearly percent increase of registered small and medium sized firms over baseline Unit: percent	1996	TBD	1996		10	15	20
2. Number of people employed in private SMEs. Source: Ministry of Labor, Ministry of Statistics	Definition: number of people employed full-time in SMEs Unit: number	1995	TBD	TBD		TBD	TBD	TBD
IR 1.3.3.1: Commercial legal systems developed.								
1. Laws passed. Source: Parliament	Definition: list of laws TBD in 1997 Unit: number	1996	None	N/A		list developed	1	TBD

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEARS				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
2. Court Enforcement of standards defined by law. Source: Highest Arbitration Court	Definition: a court case in favor of complaint Unit: Y/N	1995	No	No		No	No	Yes
IR 1.3.3.2: Business groups perform self-regulatory functions.								
1. Number of nationally registered business associations with formal SRO authority in these fields. Source: SROs, Ministry of Economy	Definition: number of national associations in fields of capital markets and accounting delegated SRO authority by GOU Unit: number	1995	0	1		2	2	3
2. Number of internationally recognized professional SROs. Source: SROs	Definition: Accounting Associations and Capital Markets SROs Unit: number	1995	0	2		3	4	4

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEARS				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.3.3.3: An open trade regime.								
1. Compliance with GATT/WTO standards. Source: WTO	Definition #1: laws brought into compliance with GATT/WTO standards	1995	No	No		Yes	N/A	N/A
	Definition #2: practices brought into compliance with GATT/WTO standards Unit: Yes/No	1995	No	No		No	Yes	N/A
IR 1.3.3.4: Corporate governance standards followed.								
1. Number of corporations that file quarterly reports with State Commission on Securities Markets (SCSM). Source: SSMSC	Definition: quarterly corporate reports Unit: number	1996	0	10		25	50	100
IR 1.3.3.5: Improved anti-monopoly enforcement.								
1. TBD Source:	Definition: TBD Unit: TBD	1995	TBD	TBD		TBD	TBD	TBD

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEARS				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.3.3.6: Functioning bankruptcy system, including financial restructuring.								
1. Bankruptcy system provides for restructuring troubled entities. Source: Highest Arbitration Court	Definition: financial restructurings completed Unit: number of restructurings	1995	0	(bankruptcy law amended to provide for financial restructuring)		2	10	25
2. Independent professionals assist bankruptcy courts. Source: Highest Arbitration Court	Definition: independent licensed trustees and liquidators, appointed, trained and compensated Unit: number	1995	0	0 (law enacted)		25	75	100
3. Improved bankruptcy system adopts basic western standards. Source: Parliament Highest Arbitration Court	Definition: law and/or court procedures revised to incorporate basic western standards Unit: Y/N	1995	No	No (revisions begun)		Yes	N/A	N/A

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEARS				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.3.4: Selected interventions provide a "jump start" to increase firm-level investments, competition and productivity.								
1. Number of firms that receive direct company-specific restructuring from USAID. Source: IFC, IESC, Enterprise Restruct. Contractor	Definition: companies to whom USAID grantees/contractors provide intensive, structured assistance Unit: number	1994	TBD	TBD		TBD	TBD	TBD
IR 1.3.4.1: Selected agricultural joint ventures created.								
1. Number of new joint ventures created. Source: FSRP implementor, Enterprise Fund	Definition: joint US/Moldovan joint ventures Farm Service Centers: Processing enterprises: Unit: cumulative number	1995						
			0 1	1 2		2 4	3 8	3 12
IR 1.3.4.2: Venture capital investment supplied.								
1. Amount of venture equity or debt supplied to Moldovan businesses. Source: WestNIS Enterprise Fund	Definition: \$ investment in Moldovan companies by WestNIS Enterprise Fund Unit: \$ million	1995	0	TBD		TBD	TBD	TBD
Note: Due to the unique nature of the Enterprise Fund project, the Mission believes it cannot be held accountable for results/impacts the WNIS Fund is expected to achieve. The Mission, therefore, would not consider the results/impacts expected from the Funds to be part of the Management Contract.								

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEARS				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 1.3.5: SO 1.1 Transfer of state owned assets. SO 1.4 Private financial sector. SO 1.2 Fiscal policies.								

Moldova: SO 1.4

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
Strategic Objective 1.4: More competitive and market-responsive private financial sector.								
1. Increased private sector investment. Source: NBM: National Bank Monthly Bulletin	Definition: share of total commercial bank credits to private enterprises and households as a percentage of total bank credits Unit: percentage	1995	35	38		42	47	50
IR 1.4.1: Market-oriented private banking sector developed.								
1. Capital of country's largest four private banks increased. Source: NBM: Bank Supervision, Bankers' Association	Definition: total assets of largest four private sector banks as a percentage of assets of the total banking system Unit: percentage	1995	15	18		22	25	30

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.4.1.1: Increase in savings mobilization (through the banking system).								
1. Increase in savings mobilization through the banking system. Source: IMF Recent Economic Developments, Basic Indicators table	Definition: currency plus demand plus time deposits as percentage of GDP Unit: M2/GDP (%)	1995	15	16		18	21	24
IR 1.4.1.2: Increased competition in the banking system.								
1. Fall in intermediation spread. Source: Moldovan Bankers' Association	Definition: bank lending interest rate minus bank borrowing interest rate Unit: percentage	1995	35	25		15	12	10
IR 1.4.1.3: Increase in the number of bank products offered.								
1. Increase in the number of bank products offered, e.g., home equity loans, savings accounts, home finance, etc. Source: Moldovan Bankers' Association	Definition: types of services available: 1995 - commercial lending, commercial deposits & personal savings Unit: number	1995	3	5		7	8	10

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.4.1.4: Financial infrastructure promotes confidence in the banking system.								
1. Annual audits of commercial banks published Source: Moldovan Bankers' Association	Definition: number of banks publishing audits (total=22) Unit: number	1995	1	3		4	6	10
2. Private banks adhere to the National Bank of Moldova solvency rule Source: NBM	Definition: number of banks not meeting solvency rule Unit: number	1995	3	1		0	0	0
3. Number of banks operating under NBM agreement Source: NBM	Definition: troubled banks under NBM intervention Unit: number of banks	1995	7	11		5	1	1
IR 1.4.1.4.1: Modern, standardized accounting system developed.								
1. International Accounting Standards (IAS) adopted by commercial banks Source: NBM	Definition: conversion to IAS Unit: Yes/No	1995	No	Yes		Yes	Yes	Yes

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.4.1.4.2: Improved banking supervision capacity.								
1. Systematic examination of commercial banks by NBM's Bank Supervision Unit Source: NBM: Bank Supervision	Definition: percentage of banks examined annually Unit: percentage of all banks	1995	0	100 %		100 %	100%	100%
2. Effective off-site examination system used Source: NBM: Bank Supervision	Definition: functioning early warning system with analytic reports Unit: Yes/No	1995	No	No		Yes	Yes	Yes
IR 1.4.1.4.3: Institutionalized loan security system developed.								
1. Security interest filing exists. Source: Moldovan Bankers' Association	Definition: priority of security interest determined by filing in National Registry Unit: Yes/No	1995	No	No		No	Yes	Yes
1.4.2: Government macro and structural adjustment policies support market economy.								
1. Adherence of the GOM to IMF quantitative performance criteria. Source: IMF resident representative	Definition: disbursements of IMF funds Unit: Yes/No (December)	12/95	Yes	Yes		Yes	Yes	Yes

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.4.3: Transparent and open securities system established.								
1. Securities market capital as a percentage of GDP (capitalization ratio) Source: State Commission on Securities Markets (SCSM)	Definition: capital measured by the SCSM Unit: percent	1994	0	TBD		TBD	TBD	TBD
IR 1.4.3.1: State Commission on Securities Markets overseeing/monitoring capital markets activities								
1. Enforcement/corrective actions taken Source: SCSM	Definition: expert opinion Unit: Yes/No	1994	No	Yes		Yes	Yes	Yes
1.4.3.2: Active and open trading of shares on the Moldova Stock Exchange (SME)								
1. Volume of shares traded (number and value) Source: MSE	Definition: number of shares traded annually; \$ value of these shares Unit: number and dollars	1994 1994	0 0	TBD		TBD	TBD	TBD

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
2. Number of companies trading on the Exchange increases yearly. Source: MSE	Definition: averages # of companies whose shares are annually traded on Exchange Unit number of companies	1994	0	TBD		TBD	TBD	TBD
1.4.3.3: Self-regulatory organization of broker/dealers operational.								
1. Evidence of corrective action taken. Source: SRO	Definition: suspension or expulsion Unit: Yes/No	1995	No	No		Yes	Yes	Yes
1.4.3.4: Companies raising capital through IPOs or alternative processes.								
1. Number of companies raising capital. Source: SCSM, MSE	Definition: Number of companies with public offerings registered with SCSM Unit: number	1995	0	TBD		TBD	TBD	TBD
2. Amount of capital raised. Source: SCSM, MSE	Definition: \$ amount of money raised annually in IPOs Unit: dollars	1995	0	TBD		TBD	TBD	TBD

Moldova: SO 1.5

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
Strategic Objective 1.5: A more economically sustainable and environmentally sound gas and electric industry.								
1. Elimination of central government subsidies Source: Ministry of Economy	Definition: elimination of budgetary line items Unit: Yes/No	1995		No	No	No	No	No
IR 1.5.1: Increased profitability of Moldova Gas (MG)								
1. Increased working capital through greater collection cash payments Source: Moldovagas records, Ministry of Economy	Definition: increase period available working capital Unit: number of days	1995		TBD	TBD	TBD	TBD	TBD
2. Revenues continue to exceed costs Source: Moldovagas records	Definition: percentage of change in net (positive) Unit: percent earnings	1995		NA	NA	NA	NA	NA

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.5.1.1: Improved Moldova Gas (MG) management systems.								
1. 1000 cub. metres consumption reduced Source: Moldenergo	Definition: reduction in customer consumption on monthly basis as shown on pilot meters Unit: number of 1000 cub. metres	1995	TBD	TBD	TBD	TBD	TBD	TBD
IR 1.5.1.2: More efficient use of gas by customers.								
1. Gas consumption reduced due to metering Source: Moldenergo	Definition: reduction of a monthly gas usage Unit: percent	1995	TBD	TBD	TBD	TBD	TBD	TBD
IR 1.5.2: More efficient, environmentally sound electric energy generation.								
1. Reduced cost of energy production per KWH Source: Moldenergo, EC TACIS	Definition: efficient electricity production Unit: \$	1995		TBD	TBD	TBD	TBD	TBD

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		CALENDAR YEAR				
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1.5.2.1: Increased boiler plant efficiency using new management tools.								
1. Reduction in cost of operation Source: Moldenergo	Definition: reduction in operation costs at 3 primary plants over quarterly period Unit: Kwt per person month	1995	TBD	TBD	TBD	TBD	TBD	TBD
IR 1.5.2.2: Increased use of efficient technology.								
1. Investment in pre-identified efficient technologies by 3 major power plants Source: Moldenergo	Definition: cost of technology, installation and training Unit: \$	1995	0	0.5	0	5	10	20