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Part I. Summary Analysis of Assistance Environment and Rationale for Focusing Assistance in Particular Areas

A. MOLDOVA AND U.S. FOREIGN POLICY INTERESTS

Moldova is the second smallest and the most densely populated of the New Independent States of the former Soviet Union (NIS). It began the arduous task of building a democratic nation and market-based economy as it faced ethnic conflicts and the social hardships accompanying economic and political transformation.

Despite these obstacles, the country has pushed ahead with economic policy reform and has been identified by many in the international donor community as a model of change among NIS countries. Moldova is also considered one of the top NIS performers in democratic development. It has sought peaceful solutions to its ethnic and security problems, including offering the largely Russian population of the separatist Trans-Dniester region broad autonomy.

Although significant progress has been made in macroeconomic stabilization, economic growth remains elusive, with GDP still declining in 1996. Internal political tensions over the pace of reforms have delayed progress in land privatization and fiscal improvement. The financial condition of the energy sector has reached crisis proportions, jeopardizing further progress in economic restructuring. The country owes nearly \$600 million to Russia's gas monopoly GAZPROM. At the local level, the average Moldovan continues to suffer, threatening a lack of popular support for further reform. Underlying all of these issues is the festering problem of Transdniester where ethnic Russians, bolstered by the presence of Russian troops, hold out for independence, thus denying Moldova control over significant industrial assets and its border with Ukraine.

Since 1991, the United States has supported Moldova in becoming a market-oriented, democratically governed state as a basis for establishing mutually beneficial political, economic and security relations. Having come so far in its transition, it is important that Moldova not lose ground in this effort. Given the problems confronting this country, however, the next several years are critical and Moldova could falter in its commitment to economic and political reform without the substantial support of the donor community. The United States has interest in Moldova succeeding and securing its independence and prosperity, both for stability in the region and as an exemplar of reform to its neighbors.

During the next five years, USAID will devote its efforts to strengthening institutions and systems, efforts essential to: complete Moldova's transition to a market economy, broaden the participation of citizens and local communities in this change, and promote long-term U.S.-Moldovan institutional relationships which will help sustain economic growth and democracy. Traditional technical assistance mechanisms, such as, U.S. long-term advisors, training, etc., have moved Moldova to a point in its development where it may be necessary to change the mix of assistance mechanisms. USAID thus proposes a blend of assistance mechanisms, augmenting traditional technical assistance modes with cooperative activities

under the Partnership for Freedom (PFF) program designed to foster trade and investment and civil society.

B. OVERVIEW AND PRIORITIES

B.1 Moldova's Progress in the Transition

Moldova is in an intermediate stage of its transition and among a group of countries showing steady progress in developing the structures for a market-oriented democracy. During the last several years it has moved fastest along the economic policy reform track. Compared to all other countries in Central and Eastern Europe and the former Soviet Union (ENI), Freedom House in 1997 ranked Moldova 12th (among 25) in economic reform, with ratings close behind Russia and Kyrgystan and ahead of all other NIS countries. On the political front, Freedom House ranked Moldova 9th in democratic freedom, on par with Slovakia and Bulgaria and second only to Russia among NIS countries. Although these rankings are encouraging, the country still faces difficult challenges in its transition.

Moldova is a model in economic policy reform, but improvements in productivity are mixed.

A tight monetary policy has been the key instrument of macroeconomic stability.

Moldova introduced its own currency, the Moldovan *Leu*, in November 1993 and it has been stable at around 4.5 *leu* to the US dollar since April 1996. Official figures show that **inflation has continued to decrease from more than 23 percent in 1995 to 15 percent at the end of 1996.** Most domestic prices have been liberalized and the foreign trade regime relaxed.

Disruptions associated with the collapse of central planning have resulted in a decline of 60 percent in real GDP since 1990. **Although the contraction of the economy slowed in 1995 to -3 percent, official estimates for 1996 show that GDP --excluding Transdnister-- dropped by a further 8 percent, despite forecasts for positive growth.** A sharp increase in imports suggests that official figures are not capturing a growing share of activity from the informal sector and thus, the true fall in GDP is probably lower. In either case, the decline is attributed to poor weather conditions compounded by the poor environment of largely unstructured agriculture sector, resulting in a 13 percent fall in agricultural output and a corresponding impact in agro-processing. There is also discrepancy over the amount of private sector contribution to GDP partially due to the difficulty in estimating the impact of the shadow economy. Comparative tables of countries in transition show **Moldova's private sector share of the economy to be 40 percent in 1996.**

Moldova is one of two countries of the former Soviet Union to complete its mass privatization program. With the participation of 98 percent of the population, two-thirds of the non-agricultural economy has been privatized through auctions that took place throughout 1995 and 1996. A total of 2,235 small, medium and large enterprises have been privatized. **More than 80 percent of the available housing stock is privately owned** and an active market for housing has developed in Chisinau and Bel'tsy.

Agricultural privatization has been slower. Although agriculture is now held in joint-stock enterprises, little has changed from the former collective arrangement since assets have not yet been distributed to individuals. Through a USAID-funded pilot project, a breakthrough has been reached and Moldova can now claim the distinction of being the first NIS republic to issue individual land titles to independent private farmers. The GOM is now extending this pilot effort to 70 demonstration farm sites with good results.

Agriculture is vital to the Moldovan economy. This sector accounts for 60 percent of GDP and employs half of the working population. Agricultural restructuring and land reform has been blocked by the Agrarians, one of the largest parties represented in the Parliament. They control the Ministry of Agriculture and have slowed real reform of the sector. The Agrarians' strongest argument against restructuring is 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. In contrast to these concerns, some international experts argue that this small agriculture country must capitalize on its high labor-to-land ratio. They believe that the future of the sector is with small farmer production linked to medium-sized agribusiness processing and supported by privately-owned service industries (e.g., trucking, machinery servicing, etc). Resolution of this conflict is important since **Moldova must depend on agriculture to generate income and expand exports.** Its moderate climate and terrain provides Moldova a comparative advantage in a variety of agricultural products including small animal production, dairy, fruits and vegetables, juices and other canned commodities, and wine.

The impact of privatization has been limited on the growth of new businesses in Moldova. **The number of non-agricultural new businesses registered in 1996 was about 15,800 somewhat less than in 1995.** A recent analysis of the retail sector in Chisinau concluded that local government represents a serious barrier to new business entrants by administering complicated and expensive processes for acquiring business licenses and leasing office space. In addition, conflicting laws and the existence of multiple organs responsible for retail trade confuse the legal and regulatory environment and inhibit new entrants. Moldovan consumers -- with low purchasing power-- have preferred and encouraged the flourishing informal sector. The amount of **unregistered economic activity in the country** was officially estimated to be about 15 percent of GDP in 1996, although observers have suggested this figure to be more in the range of 30-50 percent, resulting in considerable tax evasion.

The infrastructure for a market-oriented banking system is being put in place, with U.S. support, although banks do not meet the needs of private businesses or households. It is assumed this will change as the fundamentals are established, public confidence is restored, and bank competition increases. Bank deposits have started to show an upward trend, but the interest rates used by commercial banks continue to be high and unattractive. Total investment -- about 9 percent of GDP in 1995 -- is too low, particularly when compared to other countries in transition. According to EBRD's most recent Transition Report, Moldova's gross domestic investment actually fell by 35 percent between 1994 and 1995. With USAID-funded assistance, **the components of the capital markets infrastructure are established.** The Moldovan Stock Exchange was inaugurated in June,

1995. To date, 43 investment funds, 11 trust companies, 27 independent registrars, and 54 broker/dealers are active in the market. The overall volume of activity during 1996 remained low due to delays in final accounting of national patrimony bonds invested, delays of the investment funds to complete their issuance of shares, and resistance by market participants to disclose transactions.

Regardless of how successful Moldova is in privatizing and restructuring its economy, **the country's prosperity will remain linked to a debt-ridden and inefficient energy sector.** Moldova imports 98 percent of its primary energy from Russia. Moldovagas, the only gas supplier in the country, is in arrears to Russia by about US\$600 million, including Transdnier. Its ability to pay is substantially hindered by nonpayment by its own customers, including the national electricity utility, Moldenergo. By September 1996, in recognition of the growing severity of the problem, the GOM ordered development of a plan for economic restructuring of the energy sector, initiation of energy price increases, development of a new method for regulation of electricity, gas and heat prices, improvement of the social safety net including targeting households in need, and movement to settle payment arrears. The Government also recently agreed to convert part of the arrears to a state debt of \$140 million and requested help in restructuring the sector from the World Bank and USAID.

Despite earlier progress in controlling deficit spending, **the budget deficit grew from 5.9 percent of GDP in 1995 to 10 percent in 1996**, twice as large as agreed to with the IMF. With USAID and U.S. Treasury assistance, effort has been made to **reform tax and budget policies and procedures.** The GOM is in the process of adopting a new Tax Code which will regroup tax provisions in over 40 laws. Initially delayed by last year's Presidential elections, the GOM anticipates enacting a new corporate and personal income tax law by July 1997 and a value-added tax by January 1998. The tax administration system remains weak and revenue collection performance appears to have deteriorated. On the expenditure side, sharp reductions in consumer subsidies helped reduce the budget imbalance. However the growing burden of social services, which will be intensified with the continued restructuring of enterprises and the divestment to the public sector of social assets and services, has become a source of concern. The GOM, with U.S. Treasury assistance, is broadening and strengthening the market for government securities to fund the budget deficit. This effort needs to be balanced with concerns over the size of its debt burden.

Moldova's trade deficit is expanding. Preliminary EU estimates for 1996 show exports registered a rise of only 2 percent, compared to an 18 percent rise in 1995. The 18 percent growth in imports in 1996 was largely from countries outside of the NIS. The trade deficit can be attributed to a combination of factors, including Moldova's dependency on importing energy (whose costs have steadily risen), lack of an external marketing network for Moldovan products, overall decline in production, and steady price depression for Moldovan exports of wine and agricultural products due to increasing competition in the marketplace. The Russian Federation is Moldova's largest partner (40 percent of total trade), followed by Ukraine, Romania, Germany and Belarus. One of Moldova's challenges over the coming years is to reorient its exports of wine, canned fruits and other agricultural products toward western markets.

As of January 1, 1997, the country's **external official debt** was \$824 million, about 52 percent of GDP, and growing steadily. Debt rescheduling privileges will begin to expire in 1997-1998, significantly increasing the debt servicing burden. **Foreign direct investment (FDI) has increased since 1992 in absolute terms, although its share of GDP is still not that significant.** By the end of 1996, FDI was estimated to be about \$86.4 million -- or 6 percent of GDP, well below the relative figures for Eastern European countries. This drag in foreign investment is attributed to the country's passive approach to enterprise restructuring, a low level of international visibility, a small domestic market, and mixed political signals regarding the break-away Transdniester region.

Social factors remain.

It is a commonly held view in Moldova that economic reform is only benefiting a small percentage of the population. **Registered unemployment is slowly increasing and there is widespread hidden unemployment.** Some 70 percent of the unemployed are women. Agricultural wage rates -- which affect 50 percent of the working population -- remain terribly depressed and the majority of transactions in the rural areas are thought to be in goods and services rather than money. Real wages of permanent workers outside agriculture appear to be rising, although salary increases do not offset the negative impact of inflation and price liberalization. **While in 1993 the average salary in the national economy covered 63.6 percent of the minimum consumer budget, by 1996 this figure fell to 48 percent.** The correlation of incomes between the richest and poorest was 1:7 in 1993; by 1996 this disproportion was 1:11. By comparison, the average index in OECD countries is 1:5.

Social protection in Moldova provides for a wide range of benefits including pensions and unemployment, compensation to low-income persons and families with many children, and social assistance. Financing for these programs comes from taxes, employee contributions and occasional allocations from the state budget. **As a consequence of the decline in production as well as tax evasion, total arrears of wages and salaries are estimated at around Lei 360 million (\$80 million) and arrears to pensions and allowances at Lei 324 million (\$72 million)** equivalent to 4-5 months pension payments. Debates during the Presidential election raised expectations that back wages and pension payments would be paid by Lucinschi, if elected to office. This has not occurred and pensioners and state-budget dependents have protested publicly.

Life expectancy for men has dropped from 65 years in 1990 to about 62 years in 1995; for women the drop has been less, from 72 to 70 years during the same period.

Democratic reform in Moldova appears to be progressing slowly.

Moldova does not appear to be progressing in building a participatory democracy. In 1997, Freedom House gave Moldova an overall rating of "partly free," although actual improvements were only recorded in the areas of political process and rule of law. Monitoring Moldova's progress in democratic development will be important, even more so, given the close correlation between political and economic freedom in leading transition

countries.

Many of the fundamentals for democracy are in place. **A new Constitution was adopted in July, 1994** and human rights, political pluralism and rule of law are political values that have been encouraged by political leadership and supported by the courts. **The court system and criminal code were reformed in 1995 and set into operation in 1996.** The courts operate under the Ministry of Justice, but are separate from the Ministry of Internal Affairs. A powerful and independent Constitutional Court exercises judicial review and has overturned actions of both the Parliament and President. With the help of the Council of Europe, the structures and procedures now in place resemble European models, although it is still too early to evaluate the impact of the changes taking place.

The Constitution protects the **rights of ethnic minorities**, including the provision for “special status” for regions where ethnic minorities are concentrated. This provision has been utilized in Gagauzia and is central to the negotiations over the Transdnister region. Moldova was the first among NIS countries to be accepted into the Council of Europe after close scrutiny of its practices on minority rights.

Parliamentary elections in 1994 and the recent Presidential elections in 1996 were both declared free and fair despite boycotts of the elections in the Transdnister region. Although the electoral process has made solid progress, Moldova still lacks a permanent Central Election Commission, and parties, candidates, and citizens lack adequate knowledge of the electoral process. The first post-communist presidential election in 1991 drew 83 percent of the voting population. The first round of the 1996 election drew 68 percent and the runoff in December brought 72 percent of voters to the polls. The 1994 Parliamentary elections also had heavy voter turnout, while local and municipal elections in 1995 drew lower rates. Some local runoffs failed to attract the requisite 50 percent due to voter apathy and limited confidence in local government. **The next Parliamentary election is scheduled for Spring 1998 and already it is having an impact on the pace of reform.** Reformers consider the next several months to be a critical window of opportunity to submit and pass key pieces of legislation; otherwise further progress will be delayed until after the election.

Press freedom is guaranteed by the Constitution and implemented through the press law of 1994. Non-governmental sources in TV, radio and print media are beginning to provide an increasing share of the information. However, they are limited more by economic factors and limited management experience than by governmental attempts to restrict information. **Non-government Organizations (NGOs) are just beginning to develop.** Although several hundred NGOs are registered, by 1996 only several dozen could be considered active. Some charitable organizations exist, but only with support from international sponsors. Private farmers constitute a very small proportion of those on the land, but are becoming more active through the small National Tarantist Party. Chisinau-based businesses are also becoming more active. It is assumed this will result over time in more business associations and lobbying groups which, according to analysts, are sorely needed to help remove impediments to enterprise growth. Over 90 percent of the workforce belongs to the Federation of Independent Trade Unions, which has been active in the last several years in pressuring the government to settle salary arrears and index savings for inflation.

In governance and public administration, the Constitution has effectively divided power between the executive, legislative and judicial branches. During the previous administration, both the Government and Parliament were able to thwart Presidential initiatives. The Constitutional Court has limited some Presidential attempts to bypass Parliamentary and Governmental prerogatives. Parliament and ministries are rewriting the legal codes to conform with the new Constitution and to bring Moldovan laws into conformity with European norms. The processes by which laws are drafted and reviewed have not been systematic, however, and there appears to be confusion regarding the respective roles and responsibilities of the Ministry of Justice and the line ministries in the development of commercial legislation. Concerns have been raised also as to whether Parliament undertakes sufficient analysis and debate prior to enactment of laws.

The status of women in Moldova may be lower than educational statistics suggest. On average, women are highly educated yet few are serving in Government positions. There are 5 women in the Parliament out of 104 seats -- about 4.8 percent, as compared to 28 percent during the Soviet era. An amendment to the law on elections is being considered which would stipulate that a party's list of candidates cannot be more than 70 percent of one sex. In the executive branch in the Fall of 1996, there were no women ministers, no chiefs of headquarters; no women serving as presidents of parliamentary commissions; no female deputy ministers; and no women in chief regional executive positions. There were, however, two female vice ministers.

Weak local government is proving to be a constraint to broadening the participation of citizens and new businesses in the transition. The country is organized as centralized state, with power concentrated in Chisinau. Revenues are also provided from the center to localities and are not always forthcoming. Exceptions are found in Gagauzia and in the proposed Transdnister agreement, where local control of administration and a local fiscal formula are provided. Local councils are freely elected, with the chairperson selected locally but appointed by the President. Municipal leaders are inexperienced in democratic processes and do not know how to manage local affairs effectively. Initial analyses have suggested that mayors are a real block to reform and need to be schooled in the potential role of municipalities in local economic development.

B.2 Contribution and Status of the USAID Program

Since 1992, the United States, largely through USAID, has provided over \$90 million in technical assistance and training support and over \$55 million in PL- 480 and humanitarian assistance for a program that addressed multiple constraints to Moldova's economic transition. The lions share of resources has been devoted to economic restructuring in an effort to promote an integrated approach to economic change and growth in Moldova. USAID has identified the five strategic objectives under the Bureau's Strategic Assistance Area I (SAA I) and a newly designed strategic objective under S-A-A-II -- democracy and governance as the core of the Moldova program. Targets of opportunities are being pursued in the social sector area. The following section highlights the role and status of USAID's program. More detailed information on program results and future plans are contained in Part II, by strategic objective.

SAA 1: Economic Restructuring

Privatization: USAID has been instrumental in helping Moldova achieve precedent-setting results in privatization, as identified under section B.1. USAID technical assistance helped develop the methodology and infrastructure for mass privatization and create the Share Registry Unit responsible for consolidating and protecting shareholder records of privatized enterprises. USAID also supported the collective farm break-up pilot completed in late 1996, which resulted in the issuance of some 1,200 valid land ownership titles. At the government's request, USAID is extending this process to an additional 70 farms during 1997 with excellent results. By mid-April nearly 20,000 land titles were in process. Ongoing assistance also supports cash auction sales of the remaining state shares in privatized enterprises and other efforts to streamline the legal framework guiding privatization of land adjacent to business enterprises.

Fiscal Reform: The Ministry of Finance in Moldova 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. USAID has provided tools and training to Ministry staff in the areas of tax policy, tax analysis and revenue forecasting, tax administration and computerization of tax collection. It has also assisted the Parliament to develop its legislative drafting and analysis capacity, particularly in the tax and budget areas. Under its auspices, a Center for Budgetary and Financial Analysis has been established to advise the Parliament. U.S. Treasury advisors have been instrumental in helping the Ministry of Finance in budget law, budget classification, organization of a Treasury, and implementation of a computerized budget execution, accounting and cash and debt management system. Fiscal reform is proving to be a long, arduous task involving many steps. New laws covering corporate and personal income taxes are presently before the Parliament and drafting of the Value Added Tax (VAT) is nearing completion. Future needs are wide ranging and continued USAID support is proposed under section B.4.

Private Enterprise Development: Given Moldova's successes in privatizing its economy, USAID is now emphasizing post-privatization programs that improve the management of private and privatized businesses, strengthen business advocacy associations, build capacity in the preparation and review of economic legislation, and foster trade and investment in agriculture and related industries.

During FY1997, technical assistance will complete the final stage of capacity building in the field of business consulting services, at which point six local firms will be providing services in marketing, management, accounting and financial analysis and 65 private enterprises will have received information and technical assistance facilitating their restructuring. In tandem, institutional development is being provided to a self-regulatory organization in support of the accounting and auditing industry. USAID is also working with the government and parliament to create a legal and regulatory environment in which businesses can grow. Other areas of assistance include the development of business support services including a computerized business information network to link Moldova with other NIS countries, Western Europe and the United States.

Because of the enormous potential of agriculture, USAID is helping this sector adjust to a market economy by promoting private solutions to agriculture production and marketing problems through the Agency's farmer-to-farmer program. USAID is also promoting new market opportunities in agriculture by brokering joint ventures through the agriculture partnerships program. During the first nine months of operation, the new grantee for agribusiness partnerships has completed the negotiations and planning for one investment project and several more are under preparation for FY1997 startup. USAID advisors are also working on constraints in rural finance and in GOM policies which govern joint venture work.

Financial Sector Reform: In the banking sector, USAID has helped improve banking supervision capacity by establishing a "troubled bank resolution unit" in the National Bank. Support is also provided for training employees of the Central and commercial banks in western banking practices and standards, and supporting the Moldovan Bankers Association in maintaining a self-sustaining bank training center. USAID has helped develop a modern, standardized accounting system through which the Central Bank has converted to a new chart of accounts. In 1997, the commercial banks are to convert to a new chart of accounts consistent with internationally accepted standards.

USAID advisors have played a lead role in developing Moldova's capital markets. USAID continues to strengthen the underlying infrastructure through capacity building activities of the nascent Moldova Stock Exchange and the independent state body established to regulate the trading activities of the professional participants. Also, activities are in place to strengthen the institutional capabilities of the investment fund industry and other intermediaries seeking to establish market transparency and foster investor confidence. Capital markets are also being helped as a result of USAID's support for cash auction sales of remaining state shares in privatized enterprises, under SO 1.1.

Energy: Until recently, USAID has not had a strategic setting for its energy work in Moldova. Earlier activities have included the Chisinau CHP Number 1 and 2 power plants where advisors have worked on supply side efficiency demonstrations. They have completed energy audits of the two plants and are in the process of procuring improved power plant equipment. During the past two years, the Yankee Gas/Moldovagas partnership has introduced innovation to the gas industry as well as explored investment opportunities. Now that there is consensus within the GOM to restructure the energy sector, USAID --in cooperation with the World Bank-- will provide primary assistance in transforming Moldovagas and Moldenergo into commercially-viable companies and in building the regulatory framework for the sector.

SAA IV: Cross-cutting and Special Initiatives

Special Initiatives

To date, USAID pursued concerns in democratic development and social stabilization through small, targeted interventions as opportunities emerged in the Moldovan assistance environment.

Under the democracy rubric, USAID-funded grantees have provided expert consultation on many draft laws and on changes in the legal structure. 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. USAID is now proposing to consolidate and deepen its efforts in democracy by pursuing a strategic objective focused on increased, better informed citizen participation at the local level (see section B.4 below).

In health, USAID funding has increased access to family planning services, reduced reliance on abortion as a means of fertility control, upgraded selected clinical sites with modern equipment, and facilitated qualitative research to develop mass media messages on the health benefits of birth spacing. Training for service providers on modern contraception, sound clinical practice, infection control and counseling is provided through USAID's women's reproductive health program. Basic support for institutionalizing child survival is reducing infant and child illness and death through immunization programs as well as improving the effectiveness of child survival programs through strengthening the local health systems.

USAID was the major donor assisting Moldova in carrying out their mass immunization campaigns to control diphtheria. USAID provided technical assistance in planning for mass immunization campaigns and educating the population on the importance of immunization. For the first eight months of 1996 diphtheria cases declined by 80 percent compared to the same time in 1995.

Through medical partnerships, USAID continues to improve the efficiency and productivity of existing health care providers through better clinical procedures and administrative management. The partnerships also train health care policy makers and administrators at all levels of government to make informed choices and rational system changes with respect to delivery system reform. The partners will continue to train operating room personnel in infection control techniques, data collection and team approach management strategies. Furthermore, the Emergency Medical Services (EMS) Center aims to reduce complications from inappropriate and untimely treatment. Other partnership activities are reducing mortality and decreasing infection resulting from cardiovascular surgery. The partnership is initiating the expansion of Emergency Medical Training to include police, firemen, and industrial safety personnel.

Humanitarian assistance has helped ease the burden on the country's most vulnerable citizens. To date, approximately \$ 4 million worth of food and surplus commodities have been distributed.

Cross-cutting

USAID has provided cross-cutting participant training assistance in support of economic restructuring and crime and corruption objectives. To date, more than 110 Moldovans have received training and programs totaling about \$350,00 are planned for FY 1997. In a related

effort, USIA exchanges include a strong focus on its "community connections program." Eurasia Foundation grants to small Moldovan institutions totaled about \$490,000 in FY 1996, with approximately 61 percent supporting economic reform activities such as training and small and medium-sized business support. Grants were also awarded to the media and NGO sectors. All of these efforts support USAID's interest in expanding reform efforts to the grass-roots level.

B.3 Other Donors

Donors coordinate on a regular basis in Moldova. USAID, IMF, IBRD, EBRD, EU-TACIS, GTZ, UNDP, UNICEF and the American Ambassador meet monthly to discuss the overall reform environment, points of program coordination, policy problems and pending GOM legislation.

The chief donors in Moldova are World Bank, USAID, EU-TACIS, and UNDP. A variety of bilateral donors are involved in Moldova on a smaller scale and several have entered into co-financing arrangements with the World Bank as a way to concentrate resources and improve the impact of their assistance.

Since 1991, the World Bank has committed approximately \$231 million in investment and technical assistance support. Initial work focussed on emergency drought recovery, rehabilitation, and the first Structural Adjustment Loan (SAL 1) for \$60 million. Ongoing efforts are in post-privatization reform (e.g., credit, automation of tax and banking systems, etc.), agriculture research and extension, health care reform, energy restructuring, and financing for a pre-export guarantee facility. Projects under preparation or review cover basic education, private sector development (phase II-market information and training), institutional framework for land titling and registration, water resources and transport, and a second structural adjustment loan (SAL 2). The pilot phase of the Rural Finance Project started earlier this year and the pilot for the Social Investment Fund will begin in May, with financial support from USAID. Due to increasing poverty levels, it is expected that Moldova will become eligible in 1997 for assistance from the International Development Association (IDA), reducing the cost of World Bank loans to Moldova.

The European Commission committed US\$ 37.2 million (ECU 29.1 million) over the 1991-1995 period, with priorities in: food production, processing and distribution; enterprise restructuring and development; energy; human resources development. The bi-annual 1996-1997 budget, totaling about US\$ 20.5 million (ECU 16.0 million), focuses on reform of agriculture support systems, support to the conversion and development of defense-related enterprises, vocational education, public administration and international economics. In December 1996 the EU granted Moldova a loan of US\$ 19.2 million (ECU 15.0 million) for balance of payments support.

UNDP projects in 1997 total \$7.5 million and concentrate on strengthening judicial and legislative systems, some preliminary work in local government, and financing in conjunction with the World Bank for the Center for Strategic Studies and Reforms. The UNDP also supports management reform of public enterprises, promotion of foreign investment and

trade, crime and drugs prevention, and strengthening the role of women in Moldova's transition.

Bilateral donors include, in addition to the US, Germany, Japan and the Netherlands. German Technical Cooperation in Moldova provided technical assistance worth US\$ 4.4 million over 1995-1996, focusing primarily on export promotion and integrated business service development. They are also preparing projects in microlending, participatory approaches in agriculture privatization, and wholesale marketing in conjunction with EBRD. The Government of Japan has provided a variety of grants to assist preparation of World Bank loan projects and the Government of the Netherlands has entered into cofinancing arrangements with the World Bank for SAL 1 and the pre-export guarantee facility.

B.4 USAID's Strategic Focus 1997-2001

As described earlier, Moldova is in an intermediate stage of its transition. To become a self-sustaining, market-oriented democracy, it must deepen its restructuring process, stimulate its productive sectors, expand exports and broaden the participation of the population in the transition. Assuming agreement is reached with the break-away region of Transdnister, the Moldovan Government will also need to address quickly the reintegration of the region into the country's economic and political systems. AID's programs must remain flexible to address the specific needs in reintegrating Transdnister into Moldova.

To date, USAID-funded advisors have played a major role helping the Moldovans put in place the basic structures required of a market economy, although economic performance data shows the job is not yet complete. Moldova has been particularly successful in privatization, price liberalization and trade and foreign exchange reforms. It has made solid progress in developing the infrastructure for capital markets and banking reform. However, Moldova needs to stay the course in agriculture reform and deepen its efforts in enterprise restructuring, commercialization of the energy sector, passage and implementation of fiscal reform, and in rationalizing the procedures by which the legal/regulatory framework is developed for private enterprise growth.

The positive ratings of Freedom House for Moldova's democratic development reflect national level indicators, e.g., Moldova's relative openness of political processes, particularly in relation to elections, parliamentary procedure, and the balance of power between the different branches of national government. In contrast and not factored in by Freedom House, the country's local institutions are still in a rudimentary stage of development and citizen involvement in local governance is limited. As in other transition countries, the standard of living for the average Moldovan has deteriorated. Surveys indicate that a majority of citizens does not believe circumstances will improve.

It is the Mission's assessment that Moldova will benefit both from continuing technical assistance to support the establishment of market mechanisms and democratic institutions, and from cooperative activities under the Partnership for Freedom program which are designed to foster trade and investment and civil society. During the next five years, USAID will devote its efforts to strengthening institutions and systems that will remain in place to

complete Moldova's transition to markets, foster participatory democracy at the local level, and promote long-term U.S.-Moldovan institutional relationships focused on sustained economic growth and civil society. As appropriate, USAID will also support exchanges and roundtable discussions between Moldovan officials and those of other progressive countries in the CEE --such as Hungary, Slovenia and Romania-- to share lessons learned in leading reform efforts and to encourage continuing commitment to the transition to markets and democracy.

Initially, USAID activities will contribute to the achievement of all five of the economic restructuring strategic objectives (SOs) and one democracy SO. Over time, USAID envisions that two of these SOs will phase out and by the end of the planning period, the program will be focused on four objectives in the areas of fiscal reform, private enterprise growth, energy and informed citizen participation at the local level. In the event circumstances improve with Transdnister during this strategy period, USAID believes it will have sufficient instruments in place to respond rapidly to new assistance requirements. Initially, the humanitarian assistance mechanisms used in Moldova under special initiatives would be extended into Transdnister immediately upon reintegration. This would be followed quickly by assistance in industrial restructuring (under SO 1.3), energy restructuring and efficiency measures (under SO 1.5) and local democratic initiatives (under SO 2.1).

The following briefly describes USAID's development plan by strategic objective.

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

USAID's vision for this SO is broad-based private ownership of assets previously held by the State. While the mass privatization program concluded in late 1995, privatization of residual state shares, unfinished constructions, and small-scale objects is critical for full ownership and management transfer of these assets to the private sector. Assuming critical valuation and pricing issues are resolved with the GOM, this final phase will signal the start of a long enterprise restructuring process of the Moldovan private sector and provide greater support to enable corporate governance to work. Equally daunting is the challenge USAID is facing in supporting the GOM in its privatization efforts of agricultural and urban land. At the GOM's request, USAID has expanded its initial successful collective farm breakup pilot to include an additional 70 collective farms. It is expected that this second stage of testing will yield different models of effective farm restructuring and train a cadre of Moldovans capable of applying proven models in other areas. The end result of this process will be the issuance of more than 70,000 individual land titles to new private farmers. Assuming GOM and donor consensus and much-needed simplification of the titling and registration process, USAID is prepared to help facilitate a national roll out effort. This effort envisions that trained Moldovans in the lead and reduced USAID presence. Concurrently, efforts will also be needed to continue development of the legal and regulatory environment to support a fledgling land and real estate market, especially in the area of titling and registration and passage of the amendment to the Law on Normative Price -- which should open the way to privatizing land under enterprises. USAID proposes FY1999 as the final year of funding.

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

Fiscal reform is key to the success of Moldova's transition. Its success or failure will impact the long-term viability of other objectives. As in other NIS countries, Moldova needs to use the national budget as a tool of economic policy and increase tax revenues through a system that is fair, equitable, and transparent. USAID envisions work on this SO as a longer-term effort extending over the entire period of this strategy. As the revised tax code is approved and implemented, USAID assistance will still be needed to develop regulations, enhance tax analysis capability within the MOF, reform and strengthen tax collection and administration, and continue to improve the institutional capacity of Parliament to analyze the budget and promulgate economic legislation. In addition, assistance is required to develop a real property tax law, in conjunction with land privatization activities and in support of local government finances. Help may also be requested to improve customs administration --a real bottleneck to improved commerce and trade.

SO 1.3: Accelerated development and growth of private enterprises

Ultimately, the success of Moldova's transition hinges on the ability of the private sector to attract private investment, expand production and increase exports. To help in this process, USAID will focus on removing the impediments to sustained enterprise growth, trade and investment, continued technical assistance is needed, however, this is an area, in which to employ PFF mechanisms, such as provision of microcredit, and promoting partnerships between U.S. firms and institutions, and Moldovan counterparts. A blend of traditional technical assistance and PFF cooperative mechanisms is envisioned. Advisors will continue to work on developing a sound legal and regulatory framework conducive to sustained growth through business advocacy and stronger Parliament analysis of proposed legislation. USAID also proposes a new technical assistance effort in capacity building for commercial law drafting, where roles and responsibilities in drafting economic legislation will be clarified and improved within and between the Ministry of Justice and those ministries initiating new legislation (e.g., finance, agriculture, privatization, etc.).

During FY1997, capacity-building in the field of business consulting services will be completed and USAID will arrange a partnership for the professional accounting association formed with USAID assistance. This latter arrangement will ensure a sustained and comprehensive effort to training, standards setting and testing for the accounting and auditing profession in Moldova -- a critical component to private enterprise restructuring. The emergence of a professional cadre trained in Western accounting standards will help enterprises improve their operations and raise domestic and foreign capital. USAID also intends to identify ways to foster and support small business development either directly or through collaborative efforts with other donors and organizations.

Cooperative U.S.-Moldovan efforts will also be promoted to increase firm-level investment, competition and productivity. Though precise information is lacking, USAID understands that the Enterprise Fund has closed one official transaction at \$2.5 million and another transaction may be pending. Support for agribusiness partnerships, a PFF mechanism, will be continued and used as a model for assistance in other productive sectors.

USAID envisions a longer-term PFF program to promote joint ventures between U.S. and Moldovan firms that are commercially viable and perform fundamental production, marketing, processing, and financial functions. One partnership in the dairy industry has been completed recently and is ready for startup. Several more are being prepared for this fiscal year, including two farm service centers. Another five are already planned for FY98-99. In addition, an Agribusiness Resource Center is being established and a farm credit facility is planned, if a \$3 million USDA surplus agricultural commodity program is approved. Policy dialogue is underway with the Government to identify and resolve constraints detrimental to viable joint venture work in Moldova.

USAID is also considering technical assistance support to a World Bank Rural Credit program. This program is under preparation by the Bank and will probably be approved in early 1998. This rural finance program is critical to provide both farmers and rural entrepreneurs credit needed to develop a viable rural economy as the privatization and restructuring of the agriculture sector continues.

It is too soon to determine when USAID will phase out of this strategic objective. Although USAID alone cannot materially affect indicators at the country progress level, positive trends in GDP and export expansion must be realized before assistance in this area comes to an end. Funding is proposed throughout the five-year period of the strategy.

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

Moldova is still largely a cash economy and the financial sector is viewed as underdeveloped. USAID's financial sector infrastructure program was conceived as a five year effort, beginning in June 1995, to promote the safety and confidence of the system. Implementation is considered on target. Bank supervision is going well where supervisors not only have gained the requisite skills but the authority to take corrective actions. Work during the next several years will focus on the development of an early warning system and the full conversion of the banking system to IAS. The long-term viability of the system will be measured by several indicators, including increases in savings mobilization, increases in the number and type of bank products offered, and ultimately, consistent increases in commercial bank credits to the private sector relative to total lending. FY1999 is proposed as the last year of funding with phaseout occurring during FY2000.

In capital markets, USAID will continue to strengthen the underlying infrastructure of the nascent Moldova Stock Exchange (MSE) and the State Commission for Securities Market (SCSM), an SEC-like independent state body established to regulate the trading activities of the professional participants. Building on MSE ongoing activities, USAID will focus on corrective actions to make the marketplace more transparent. Activities will strengthen MSE operating procedures, establish a commodities information center, and introduce new financial instruments and investment opportunities. Concurrently, USAID will work with the GOM to strengthen and sustain the enforcement authority of the SCSM. USAID anticipates a positive upward trend in the volume of activity on the stock exchange by 1998, at which point it will phase out of this area.

SO 1.5: A more economically sustainable and environmentally sound energy sector

There appears to be consensus among experts that failure to restructure the energy sector will jeopardize Moldova's gains in economic reform. Energy sector restructuring is expected to move towards demonopolization and privatization and include transfer to the private sector of the role of importation and supply of oil products, gas and electricity. Regulation of the sector is expected to move toward establishment of a transparent, predictable regulatory regime to cover operational needs and to establish a surcharge to repay the outstanding fuel import debt to Russia.

Reform of the sector is being supported with \$200 million through the IMF and a World Bank \$10 million sector loan as well as the proposed \$100 million Structural Adjustment Loan. EBRD has a power loan in place. USAID's role will be to help establish the regulatory entity --providing guidance on policy and operational issues and training staff-- and to provide technical assistance to Moldovagaz and Moldenergo in improved management, planning and commercial practices. Viewed as a 3-4 year effort, start-up begins in 1997. Building on the success of the Yankee Gas - Moldovagas partnership begun in 1995, USAID will continue this effort as well as forge a new partnership for Moldenergo and explore the possibility of linking the new regulatory entity with the energy regulatory network in the United States. As funds permit, USAID plans to introduce energy efficiency technologies and techniques to the sector beginning in FY1998. The final year of funding is proposed for FY2001.

SO 2.1: Increased better-informed citizens' participation in political and economic decision-making at the local level

A confluence of issues have come together to suggest the need to work on participation and information dissemination problems at the local level. Because political power is centralized at the national level, and there is little political will among politicians to address citizen or business concerns at the local level. Moreover, citizens and businesses do not have the information or skills necessary to interact effectively with government institutions and advocate in their own interest. They are not fully aware of their rights under the law nor do they fully understand the new institutions being put in place as a result of Moldova's economic reform process. Few small businessmen are aware of the regulations which govern their trade, and they lack experience in legal advocacy. Only a few dozen NGOs are considered active in Moldova and they reside in Chisinau.

Standards of living outside Chisinau are dropping. Public services are weak or non-existent and local governments are not responsive to citizens' needs. Local bureaucratic red tape is cited as a significant obstacle to new business startups. Economic reforms to date are only being realized in the Capital and its surrounding areas, with little outreach to either the north or south of the country. A recently completed analysis of constraints to new business entrants concluded grass-roots associations are essential to expediting changes in the legal and regulatory framework governing commercial enterprise.

Building on earlier work conducted as special initiatives, USAID is proposing to focus and

deepen its efforts in supporting better informed citizen participation, with special emphasis at the local level. Discussions among USAID, the Embassy, GOM and non-governmental players have confirmed that a better informed civil society will be a key component of the successful transition in Moldova. Central government agencies are struggling with reforms and change will continue to be slow at this level. Priorities for USAID interventions will be activities which support information sharing through organized groups, public education about rights and responsibilities, independent media and citizen advocacy. These activities will assist the development of the institutions -- particularly at the local level where the most immediate impact of both the obstacles and the changes is felt -- and the processes by which citizens participate and by which decisions are made. Central to the success of this is improved transparency at the national and local levels through a strengthened media and improved accountability of government.

Mechanisms to be employed will include those proposed by the PFF and will focus on all aspects of the local environment --citizens, businesses, neighborhoods and local government officials. Activities will be designed to reflect lessons learned in participation in the Ukraine environment. Work under this SO is seen as a longer-term commitment and funding is proposed for the full period of this strategy. Depending on the overall duration of the USAID program in Moldova, USAID may at a later date propose the establishment of a foundation in support of civil society and local governance in Moldova.

Special and Cross-Cutting Initiatives

USAID will continue special initiatives in reproductive health through FY1999 and in medical partnerships and humanitarian assistance throughout the strategy period. Funding is proposed throughout the strategy period for cross-cutting programs in training, exchanges and grass-roots grants from the Eurasia Foundation.

C. TRANSITIONAL ISSUES

C.1 Potential for Political Instability

The unresolved conflict in the break-away Transdnier 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 Transdnier region, have continued, Tiraspol has used the time to create the basic structures of an independent country, including establishing a shadow government, a "national" bank and the issuance of its own currency.** However, these structures have done little to alleviate the poor economic conditions and poverty in Transdnier, 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.

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 which take place in Moldova. 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.

D. CUSTOMER FOCUS

USAID/Moldova regularly meets with donors, implementers and counterparts to coordinate programming and develop synergies with other programs. In addition to the monthly meeting of Chiefs of Donor Missions, USAID sponsors or attends several sector-specific roundtables (e.g., small and medium-sized business, law development, agriculture and agribusiness) open to advisors, consultants, grantees, Peace Corps and other donors. USAID privatization, fiscal and financial advisors also meet weekly to discuss progress and problem issues in their respective areas. These advisors work closely with their counterparts and are usually located directly within ministries, parliament or other client institutions. Their understanding of the Moldovan environment is essential for solid programming decisions. Additionally, USAID has supported several key surveys which have provided important insights into problems, issues and attitudes of Moldovan citizens. The Analysis of the Retail Sector in Chisinau, conducted in October 1996, also provided insight to the problems faced by new businesses. These types of surveys should become more systematic with USAID's need to monitor progress in the new democracy SO.

PART I.E: IMPLEMENTATION PLAN

FY92 FY93 FY94 FY95 FY96 FY97 FY98 FY99 FY00 FY01

1.1 Privatization

- Mass Privatization
- Land Privatization

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1.2 Fiscal Reform

- Tax Policy Reform
- Tax Administration
- Intergovernment Finance
- Leg./Policy Analysis in Parliament
- Budget Process
- Government Securities

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1.3 Enterprise Development

- Enterprise Restructuring
- Leg/Reg Framework
- Accounting Reform
- Small Business Support
- Agribusiness Support
- Enterprise Fund

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1.4 Financial Sector

- Capital Markets
- Central Bank
- Commercial Banks

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1.5 Energy

- Regulatory Entity
- Restructuring/Commercialization
- Privatization
- Energy Efficiency
- Energy Partnerships

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PART I.E: IMPLEMENTATION PLAN (continued)

| | FY92 | FY93 | FY94 | FY95 | FY96 | FY97 | FY98 | FY99 | FY00 | FY01 |
|--|------|------|------|------|------|------|------|------|------|------|
| 2.1 Participating at the Local Level* | | | | | | | | | | |
| 'Legal/Regulatory | | | | | | | █ | █ | █ | █ |
| 'Public/Private Partnerships | | | | | | | █ | █ | █ | █ |
| LG Support Institutions | | | | | | | █ | █ | █ | █ |
| 'Election Support | | | █ | █ | █ | █ | | | | |
| 'Rule of Law | | | █ | █ | █ | █ | █ | | | |
| 4.1 Special Initiatives | | | | | | | | | | |
| Reproductive Health | | | | █ | █ | █ | █ | █ | | |
| Medical Partnerships | | | | █ | █ | █ | █ | █ | █ | █ |
| Humanitarian Assistance | | █ | █ | █ | █ | █ | █ | █ | █ | █ |
| 4.2 Cross-Cutting Programs | | | | | | | | | | |
| NIS Exchanges/Training | | | █ | █ | █ | █ | █ | █ | █ | █ |
| Eurasia Foundation | | █ | █ | █ | █ | █ | █ | █ | █ | █ |

Part II. Strategic Plan Elements by Strategic Objective

A. Strategic Objective Plans

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

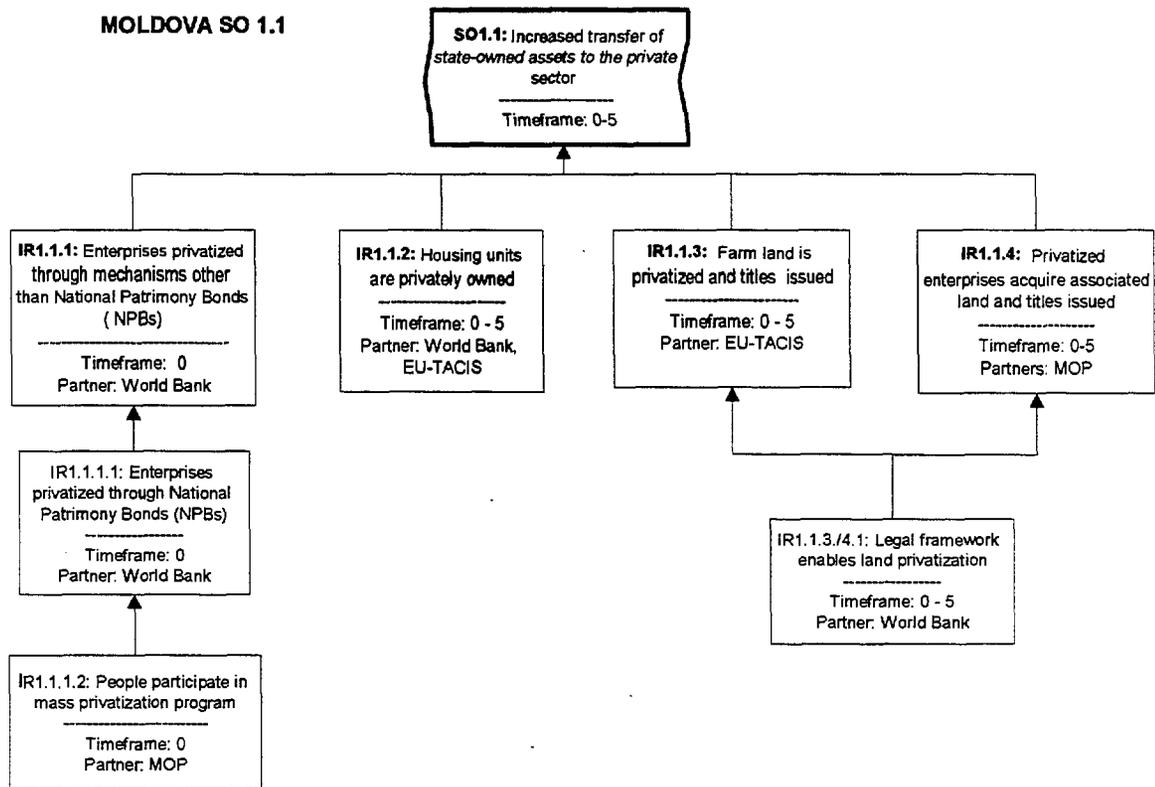
1. Problem Analysis

The Republic of Moldova is one of two countries of the Former Soviet Union (FSU) to complete its mass privatization program, with two-thirds of the non-agricultural economy in private hand. This effort was accomplished through the broad-based participation of 98 percent of the population resulting in the transfer to the private sector of more than 2,235 small, medium and large enterprises.

This process was achieved in a fair, open and transparent manner through the involvement of the population-at-large and their participation in the economic transformation process through the allocation of National Patrimony Bonds (NPBs), and by privatizing a large number of enterprises to deepen market forces and competition.

The Government of Moldova in its submission to Parliament of the 1997-1998 State Privatization Program is committed to continuing the privatization effort begun under its earlier programs. Among other issues, the proposed program seeks to complete the transfer of state assets to the private sector, sets the stage for the transition from mass privatization for NPBs to privatization for cash, and the transfer of private ownership of the land associated with privatized enterprises.

The Republic of Moldova must acknowledge that private ownership of land generally encourages more productive use. Persons and enterprises that have the financial, managerial and creative ability to add value to land (through investments of money and labor in improving the land) will be inclined to purchase land and improve it to make it more productive and therefore more valuable. By making land more productive and valuable, local and foreign investors will become interested in investing in businesses operating that land. Domestic and foreign investors with secure interests in land will more readily commit to long-term and capital intensive investments in the Republic of Moldova.



2. Results Framework

Transition Hypothesis

One of the principal objectives in the transition of a command economy to a market-driven environment entails the achievement of structural reforms through the successful redistribution of state property. The crucial objective of property reform in Moldova has been, and continues to be, the right of ownership for all citizens and the need to limit state involvement in the decision-making process regarding property, thus providing the conditions for stabilization, restructuring and development of the national economy.

The Government of Moldova is now poised to move into a second privatization phase to encompass cash sales of residual state-owned shares, additional small-scale objects, unfinished construction and land privatization. Therefore, the full and complete 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 focused on four major areas of privatization: 1) enterprises privatized through mechanisms other than NPBs; 2) additional housing units become privately owned; 3) farm land is privatized and titles issued; and 4) privatized enterprises acquire associated land and titles issued. The rationale for the continued focus is to support the GOM in its efforts to divest the state from its remaining control of state assets thereby allowing the private sector to become a more efficient producer of goods and services, and to

facilitate the emergence of land and real estate markets.

Critical Assumptions

Two critical assumptions apply to this SO. First, the Parliament of Moldova must adopt the 1997-1998 Privatization Program to continue efforts to transfer to the private sector through cash auctions or other mechanisms residual state shares, small-scale objects, and unfinished construction. Second, Parliament must amend the Law on the Normative Prices of Land to reduce the pricing structure for land under and attached to privatized enterprises.

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) Enterprises privatized through mechanisms other than NPBs, 2) housing units are privately owned, 3) farm land is privatized and titles issued, and 4) privatized enterprises acquire associated land and titles issued.

IR 1.1.1 Enterprises privatized through mechanisms other than NPBs. This intermediate result addresses future performance of enterprise privatization. The Government of Moldova has submitted to Parliament for approval the Law on Privatization Program for 1997-1998. Among other objectives, it seeks to: 1) shift from mass privatization based on patrimonial bonds to privatization for cash; and 2) apply multiple methodologies to achieve privatization including the sale of residual state-owned shares utilizing the Moldova Stock Exchange as a venue, open outcry auctions for small scale objects, as well as other mechanisms to settle state debts with state property objects.

IR 1.1.2 Housing units are privately owned will monitor the ongoing transfer to the private sector of these assets although there will be no USAID resources allocated to this process. It is for this reason that very conservative targets have been set for 1997, 1998, and 1999.

IR 1.1.3 Farm land is privatized and titles issued. In mid-1996, USAID initiated a pilot rural land privatization and collective farm breakup effort. The pilot had two objectives: 1) to effect the complete "break up" of the collective farm by distributing its land and physical property to all eligible collective members; and 2) to issue constitutional land titles to each new landowner duly recorded at the central and local levels. Such a distribution of land and property was carried out in accordance with the laws of Moldova, in a systematic, transparent and ethical manner.

Equally challenging is the land survey and titling and registration effort which must accompany the breakup of the collective farms to ensure that individual land titles are issued to all former members. Following the field measurement of the major parcels of land and the agrotechnical configuration of the individual land parcels, title certificates (in duplicate) will be filled out and printed for each farm member. These certificates are validated and registered by central and local government officials. The second phase of the pilot is underway involving 70 collective farms and expectations are that the land and property

subdivision, allocation and titling and registration effort will be completed by June 1998 with the issuance of more than 70,000 titles during 1997 and 1998.

IR 1.1.4 Privatized enterprises acquire associated land and titles issued. As in most of the former Soviet Republics, when the government privatized enterprises with their corresponding assets, land was excluded from the enterprises' balance sheets and, therefore, remained state owned. As a result, a typical privatized enterprise in Moldova owns its buildings but not the land on which its buildings are located. Although privatized enterprises are not prohibited from owning land underneath and surrounding their privately owned buildings, no known privatized enterprise has acquired its associated land from the state because: (i) the normative price for enterprise land is not affordable to privatized enterprises; and (ii) no mechanism existed by which to transfer the ownership of such land from the state to privatized enterprises.

To reduce the exorbitant prices imposed by the Law on Normative Prices of Land, USAID is assisting the Ministry of Privatization and State Property Administration in drafting amendments to the Law. In particular, the government decision (adopted in June 1996) seeks to reduce the prices for land associated with privatized enterprises from an average price per hectare of 676,352 lei (\$145,100 USD) to an average price of 47,000 lei (roughly \$10,000 USD). It is expected that Parliament will vote on the amendment to the Law sometime in 1997 and more than 120 privatized enterprises are ready to file their applications to seek title and ownership of their land.

3. Judging Progress

The privatization of land will strengthen real estate markets in urban and rural areas and transform both 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. Land under privatized enterprises must also be privatized to ensure clear and unencumbered land titles. Only when land is sold in a competitive market will it approach its maximum social and economic utility.

Specific Results Achieved to Date:

Medium and large scale-state enterprises fully auctioned for national patrimony bonds: 1,089 medium and large scale enterprises were privatized. 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 enterprises sold:** 1,393 small enterprises were sold, including 732 shops and 364 health care and other objects were privatized through open outcry auctions and public tenders.
- **Housing units are privately owned:** According to the GOM, 200,000 apartment units -- 85% of total stock -- have been privatized.

- Following the initial collective farm breakup, **more than 1,320 individual land titles were issued** to new private, independent farmers.

4. Commitment and Capacity of Development Partners

In all aspects of privatization, USAID, and the major international donors have collaborated to provide guidance and support to the Government of Moldova in setting mass privatization and land privatization targets. These targets and the collaborative partnership are reflected during the SAL Government of Moldova/World Bank and IMF negotiations.

5. Illustrative Approaches

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 registration 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. The issuance of land titles will 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.

6. Sustainability

To achieve sustainable results, residual state shares must be sold in a fair, simple and transparent manner to ensure broad participation. The liquidation of the residual shares as well as the privatization of small-scale objects will facilitate the process for the Moldovan private sector to restructure itself to produce quality goods and services at costs that would enable it to compete in international markets and with foreign suppliers at the local level.

The constituency supporting market reform arising from a comprehensive effort in land privatization is enormous. In the area of rural land privatization, a streamlined collective farm breakup process accompanied by an equally simplified land subdivision effort driven by the private licensed surveyors, has the potential of creating approximately one million new landowners resulting from 1,000 collective farms in Moldova. Continued legal and regulatory support in urban land privatization will facilitate the privatization of approximately one million dacha plots, residential plots and enterprise plots now in various stages of privatization. USAID envisions supporting the various aspects of land privatization during FY 1998 and FY 1999.

SO 1.2 Increased soundness of fiscal policies and fiscal management practices

1. Problem Analysis

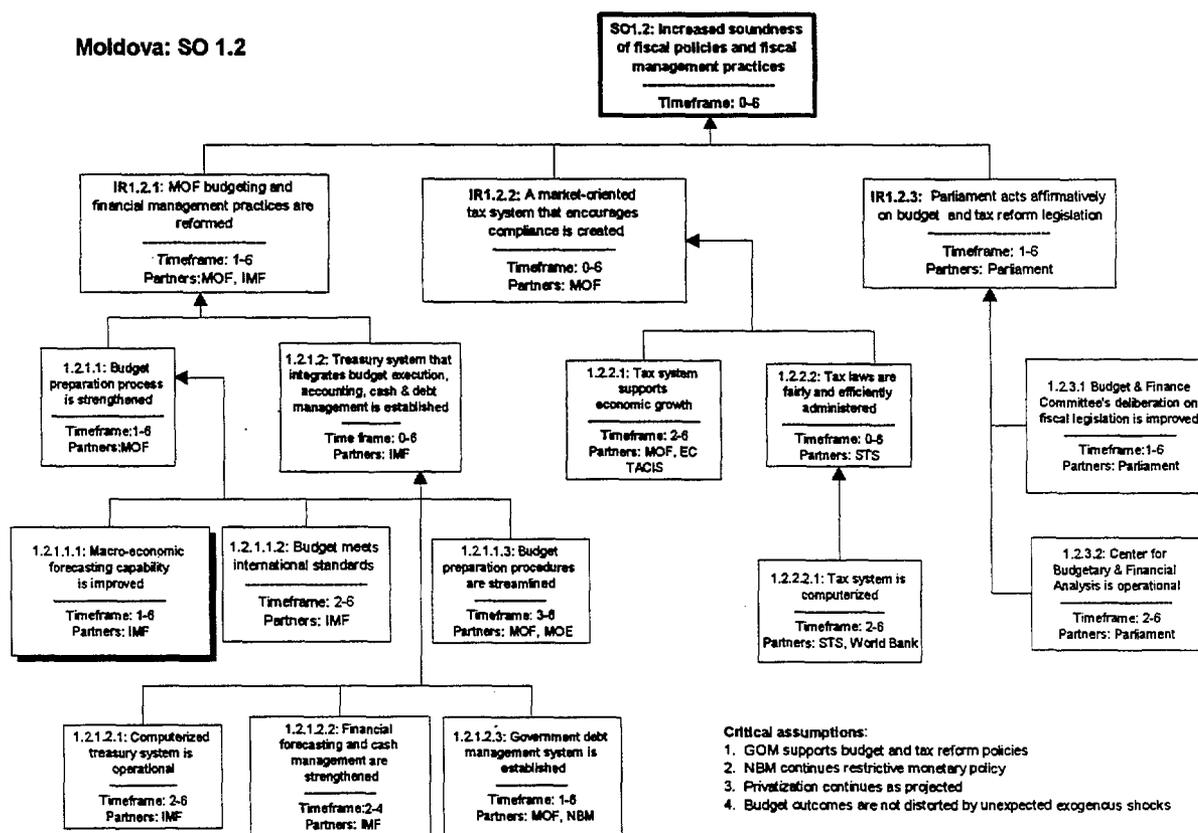
As a small country with a limited resource base and still less experience with a market economy,

Moldova has to work from the ground up in its efforts toward achieving this strategic objective. Though these efforts do not always yield success, as witness the suspension of IMF loans due to failure to meet the 1996 budget deficit target, Moldova has nonetheless made substantial progress.

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. It demands a restructuring of the tax system to encourage economic activity and taxpayer compliance and also to ensure fairness and consistent application. Modern techniques of budget preparation and budget execution are also 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 be strengthened 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. There also has to be sufficient information and support in the Parliament for the necessary legislation to reform the tax and budget systems and provide the resources (or constraints) required to implement the reforms.

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) persistence of attitudes from the previous 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.

Moldova: SO 1.2



2. Results Frameworks Transition Hypothesis

It is clear that a market economy requires the performance of the fiscal policy and fiscal management functions of a competent ministry of finance, or its equivalent (i.e., the basic functions may be 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.

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 revenues are accurately estimated and collected and expenditures are 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.

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 Parliament (elections scheduled early in 1998) would continue to support these 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.** Though 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. IR 1.2.1.1, strengthening the budget preparation process, consists of improving macroeconomic forecasting capability and bringing budget preparation into conformance with international standards, including establishment of a new budget classification. A large part

of the problem Moldova has had in meeting IMF targets is the failure to forecast revenues accurately and 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 needed to make sure that expenditures are limited to amounts contained in approved budgets and deficits are confined to target amounts. Such a system should be computerized and deployed throughout the country.

The second element of the program is 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 a 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, plus computerization of the tax system to improve information and efficiency.

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 improve the deliberations of the Budget and Finance Commission of the Parliament, through adoption of the budget system law and provision of analytic reports on the budget. IR 1.2.3.2 would create this capacity on a permanent basis, through support to a Center for Budgetary and Financial Analysis to serve the Parliament.

3. Judging Performance

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 the tax system and in government financial management in which USAID-funded advisors have been involved. These include an extensive effort 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, and to institute efficient tax administration practices. Other actions have included the enactment and gradual implementation of a budget system law covering all aspects of the budget process and the establishment of a Treasury. There has also been a program to establish a government securities capability which has met with some success. Parliament has generally been receptive to reform legislation, with significant achievements including recent passage of the comprehensive corporate and personal income tax law and the adoption of the budget system law.

4. Commitment and Capacity of Development Partners

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 USAID-funded advisor is working on the computerization of the tax collection function, in conjunction with a \$1.9 million loan for hardware and software from the World Bank. USAID has approached both EU-TACIS and, more recently, the IMF about supporting the customs law portion of the tax code project, but thus far such aid has not materialized.

5. Illustrative Approaches

The tax reform project completes work on 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.

6. Sustainability

As indicated in the "problem analysis" section of this report, the MOF has required institutional strengthening. USAID technical assistance will ensure that Moldovan counterparts receive the training necessary to effectively implement fiscal reforms for the long-term. For example, staff of the MOF Budget Department and the Parliamentary Center for Budgetary and Financial Analysis have received joint training funded by USAID in budgeting fundamentals.

The program is also assuring sustainability through the development of new budget and tax laws and procedures that encourage fiscal responsibility in government and growth of the private economy. In short, the program is providing the basic fabric for sustainable and effective fiscal management in Moldova.

There are a number of potential activities which USAID should consider for the future. If other donor organizations do not provide the suggested support for modernizing customs law

and procedures, then USAID may have to step in and do more in this area. Other programs needed to ensure sustainable and effective fiscal management--and already requested by the GOM--include creation of a Tax Administration Training Center for Moldova (similar to one already being established in Ukraine) and major efforts to establish a modern system of intergovernmental finance/fiscal federalism and to strengthen the financial base of local government through the development of a property tax law and administrative system.

SO1.3 Accelerated development and growth of private enterprises

1. Problem Analysis

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.

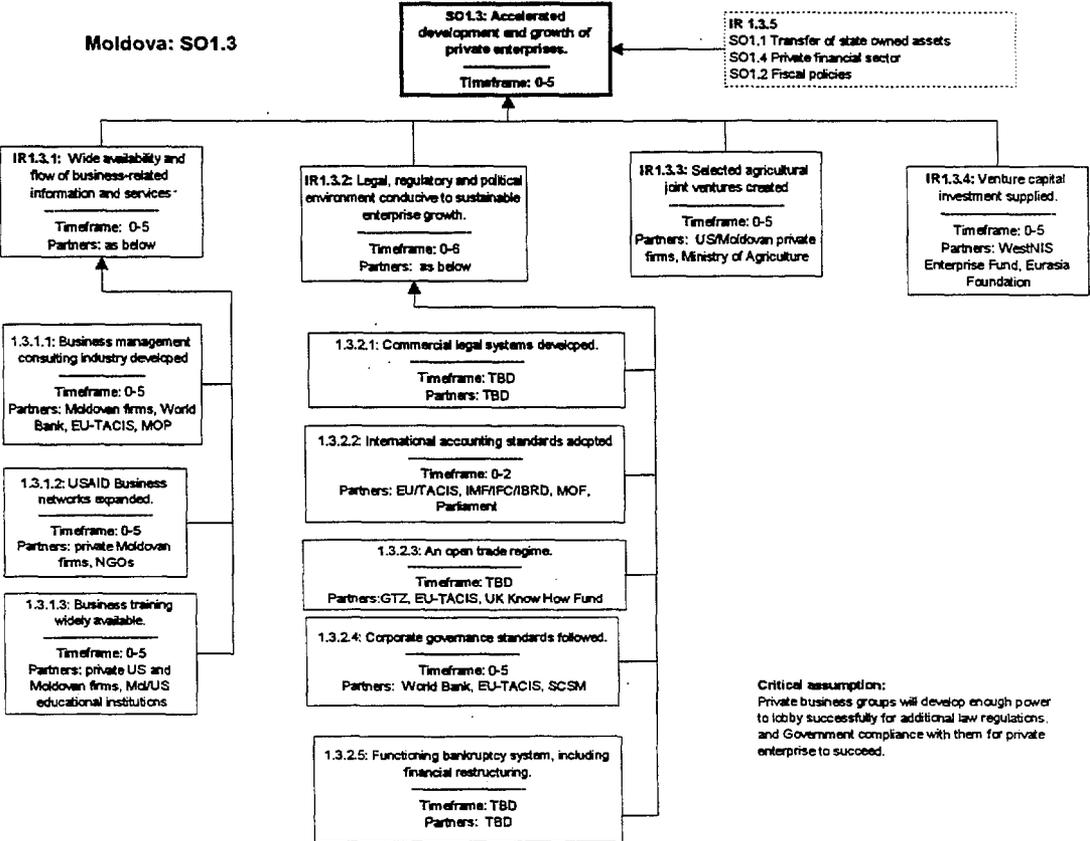
This competitive environment will be evidenced by a functioning and well developed capital markets infrastructure; compliance with sound corporate governance principles and observance of shareholder rights; issuance and registration of land titles; the ability for the enterprise to raise capital through private placements or public offerings of shares; wide acceptance and use of international accounting standards; and the existence of self-regulatory organizations capable of representing and upholding the professional and ethical standards of their membership. 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 more than 60 percent of GDP, 50 percent 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 than agriculture per se 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 purest pieces of the old Soviet system that have been left relatively unreformed. 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. Hasty and casual preparation of new legislation has led to the enactment of a great deal of poor quality legislation. In the course of adoption, some laws have been revised in ways that detract from their workability. These and other factors have led to laws that are often inconsistent or dysfunctional.

Key impediments to progress in Moldova toward this strategic objective include: 1) the gradual official pace at which agricultural reform and private ownership of agricultural land are taking place; 2) the hesitance of entrepreneurs with financial and managerial resources to risk investment 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) hesitance within the government to accept a reasonable pricing structure for land under privatized enterprises that would allow agro-industrial enterprises to develop; 6) slow progress in developing rules regarding property relations and an enforcement system for ensuring that contracts are adhered to; 7) new laws that are inconsistent with previous statutes, or are inconsistently applied by local level officials not yet convinced of the value of supporting and encouraging reform; and 8) the limited use of western accounting standards by enterprises.



2. Results Framework

Transition Hypothesis

This strategic objective contributes directly to ENI Strategic Assistance Area I: Economic Restructuring. As the State abandons productive and commercial enterprise 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 comparative or 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 include venture capital and credit as well as joint venture promotion in agriculture. Given the importance of agriculture to the economy, its high potential for foreign investment, and the fact 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 agro-industry its proper place as the leader in carrying Moldova’s economy forward.

Critical Assumptions

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 Five sets of intermediate results contribute to accelerated development and growth of private enterprises in Moldova, measured as an increase in the number of businesses and their relative (to the public sector) contribution to GDP. They are: 1. Wide availability and flow of business-related information and services; 2. Legal, regulatory and political environment conducive to sustainable enterprise growth, 3. Selected agricultural joint ventures created; (4) Venture capital investment supplied; 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 shrinking State-controlled industries. Each of those IRs will be produced by the following results:

IR1.3.1 Wide availability and flow of business-related information and services will result from the development of a management consulting industry, an expansion of business-support networks, and an increase in the number of persons trained in business skills.

IR1.3.2 Legal, regulatory and political environment conducive to sustainable enterprise growth will be measured by the amount of foreign direct investment in Moldova. 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) (IR1.3.2.1). International accounting standards must be accepted by the Government and adopted by companies (IR1.3.2.2). As international accounting standards and other Western business practices are utilized by enterprises, Moldovan companies will become 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. There must be an open trade regime that places minimal or no cost on imports 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 or comparative advantage (IR1.3.2.3). Companies must conform to a generally accepted set of standards for governance if owners are to effect change in privatized firms and for those firms to sell shares as a means of gaining investment capital (IR1.3.2.4). Finally, there must be a functioning bankruptcy system for the protection of banks and private investors in order to encourage lending to private enterprise (IR1.3.2.5).

IR 1.3.3 and 1.3.4 Selected agricultural joint ventures created and Venture capital investment supplied will be measured by the number of firms that receive direct, company-specific assistance to form U.S.-Moldovan joint ventures in agriculture and by the number of investments made by the West NIS Enterprise Fund. 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. The WestNIS Enterprise Fund supplies venture and loan capital in various market niches.

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 also 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 allocate savings effectively to their most profitable use. It must be competitive 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.

SO 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.

3. Judging Performance

More than 2,235 small, medium, and large enterprises have been transferred to the private sector during the Government of Moldova's mass privatization program for national patrimony bonds fully concluded in 1996. 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.

Results achieved to date include:

- **Free availability and flow of business-related information:** NewBizNet has 215 subscribers to its business information networks at two business support centers in Moldova. In addition, business networks have expanded to generate business advocacy associations which are increasingly effective in building a database for SME entrepreneurs and promoting business development through training of more than 750 Moldovans in marketing, sales techniques and agricultural management.
- **Improved application of market-driven business skills:** Through on-the-job training to 80 Moldovan professionals and six business management consulting firms in critical areas of enterprise restructuring. To date, 58 paid consulting contracts have been executed to provide marketing, management, accounting and financial services to privatized enterprises.
- **Legal, regulatory and political environment conducive to sustainable enterprise growth:** An association of accountants and auditors was established in 1996 to train and license members and provide increasing emphasis on the need for enterprises to utilize international accounting standards when adopted by the government.

4. Commitment and Capacity of Development Partners

The broad array of sectors and activities encompassed under this SO requires close and active coordination with other international donors such as the World Bank, IMF, EU-Tacis, and the West NIS Enterprise Fund.

5. Illustrative Approaches

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.

6. Sustainability

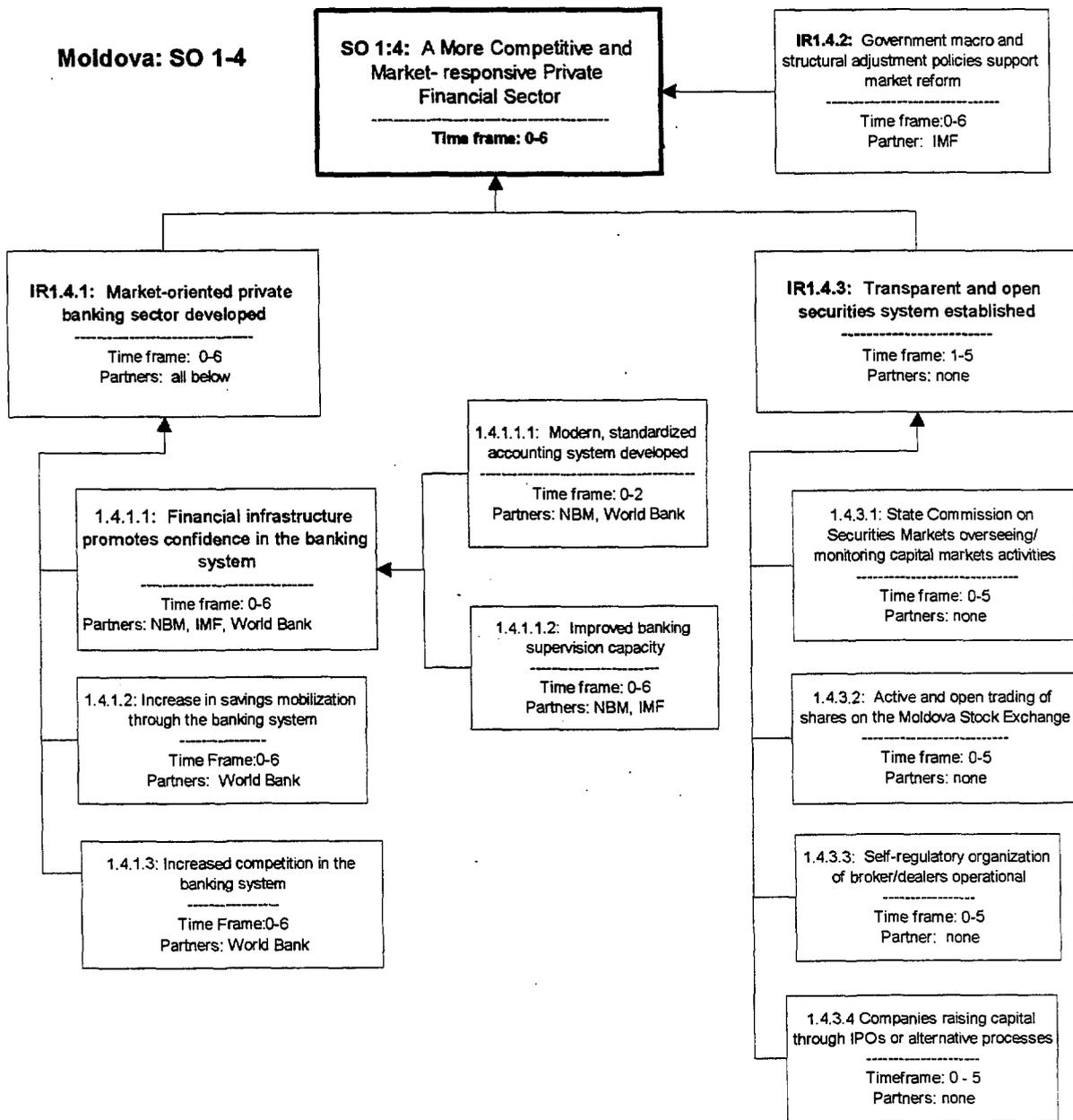
Sustainability of this SO will be achieved when USAID and other donors have succeeded in creating a commercially viable environment that will enable private enterprise to flourish. Moldova has made great strides in privatizing its economy. However, without laws, regulations and policies that are conducive to business activity, the private sector will not be able to grow. Therefore, **USAID is now emphasizing post-privatization programs** that improve the management of private and privatized businesses, strengthen business advocacy associations, and improve the analytical capacity of the Parliament to understand the ramifications of laws proposed for enactment while working with the government and parliament to create a legal and regulatory environment in which businesses can flourish.

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

1. Problem Analysis

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. There was no capital market at all.

A market-based financial system, using price to allocate financial resources, is essential 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, commercial lending, and equity investment. 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), a broad-based money market (government securities, interbank funding), and all the institutions of capital markets. 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 play 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 crucial 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.



2. Results Framework

Transition Hypothesis

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 a sound capital markets environment to facilitate restructuring of enterprises and provide them with a flexible source of funds for investment.

The government's role in the transformation is to develop a financial infrastructure to promote a safe, sound and efficient banking system and capital market. The challenges facing the government in banking are to: 1) 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) promote transparency of operation; 3) 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) 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. The development and functioning of capital markets is seen as a necessary corollary to privatization. Once the citizenry become 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 that 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 precondition is the development of reliable, transparent trading systems and regulatory oversight.

The expectation is to have what began as a form of redistribution of State assets to the general population and gradual decrease of 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 indicators of the success of the Moldova Stock Exchange will be the volume of trades on the Exchange and the ability of enterprises to use it to raise capital through public offerings. 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 should 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. Finally, the government will need to strengthen the enforcement capabilities of the State Commission for Securities Markets (SCSM), an SEC-like entity, to regulate the numerous professional market participants.

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

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 will not be eroded 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 the 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.

IR 1.4.1: Market-oriented private banking sector developed. This is the nexus of the work which the government does in developing the basic building blocks of the infrastructure and the banks themselves in upgrading their practice and broadening services to the public. As these factors mature, private banks will increase market share.

The first lower level intermediate result is IR 1.4.1.4: Financial infrastructure promotes confidence in the banking system. There are three 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.

The second is IR.1.4.1.2 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 third is IR 1.4.1.3: 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.

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, and 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 necessary measures to ensure transparency and take corrective action to protect investors or there will be very few investors. 2) Active and open trading of shares 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 by 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 working securities system is that companies use it to raise investment capital. These four sets of intermediate results are sufficient to produce a transparent and open securities system.

3. Judging Performance

The development of the financial infrastructure in Moldova is continuing at an accelerated pace. The Moldova Stock Exchange was inaugurated in June, 1995. With consolidation of the market participants expected in the near future, to date 42 investment funds, 11 trust companies, 30 independent registrars, and 56 licensed broker/dealers are operating. Moldova was one of the first republics of the former Soviet Union to establish an independent securities market regulating entity with Ministry status. 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 before the end of 1997. Improved banking supervision is a major emphasis, and it has led to the formation of a troubled bank resolution unit in the central bank and technical assistance for the development of on- and off-site supervision.

USAID's future assistance in this area will focus on helping to create a professional bank supervision department at the National Bank as well as assisting in refining the laws and regulatory-reform environment as well as working with commercial banks in the implementation of back office procedures to optimally and efficiently use the new IAS chart accounts in banking operations.

In capital markets, USAID assistance will focus on ensuring the commercial viability of key infrastructure institutions (i.e., the stock exchange, the securities commission and a recently formed broker-dealer self-regulating organization) as well as the continuing conversion of voucher funds to various forms of investment fund operations.

Results achieved to date include:

- **A Securities and Exchange Commission was established** in 1994, making Moldova one of the first republics of the former Soviet Union to establish an independent securities market regulating entity with Ministry status.
- **Moldova Stock Exchange opened** in June 1995: the volume of trades for 1995 was \$5.2 million and for 1996, \$2.5 million reflecting an adjustment of the market during this initial phase.
- **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. An off-site monitoring system with an early warning system is in place before end 1997.
- **Modern, standardized accounting system developed:** The Central Bank has converted to a new chart of accounts, and with USAID assistance, the commercial banks converted to a new chart of accounts consistent with internationally accepted standards at the end of 1996.

4. Commitment and Capacity of Development Partners

Financial reform activities are coordinated with the IMF and the World Bank. The bank supervision program is being developed together with the IMF. The IMF is providing two on-site supervisors while USAID is covering the off-site and problem bank functions. They act as a team, and integrate their work at all stages. The IAS conversion is being developed as part of the conditionality of the World Bank SAL II loan. In addition, the EBRD has begun a project to fund microenterprises with technical assistance funding provided by USAID. This project tests the proposition that there is a viable market in this sector which banks should be tapping

5. Illustrative Approaches

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. USAID 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. Further development priorities for the capital market include: 1) restructuring of the privatization voucher investment funds into investment funds of a common type, stimulating overall investment activity with the ultimate goal of raising capital in the marketplace through IPOs or alternative methods; 2) improvement in the quality of professional market participants activities, specifically broadening the knowledge base, expertise of broker/dealers, 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; and 4) enforcement actions to ensure market transparency and liquidity, for the protection of investors and to foster additional investments into the national capital market.

6. Sustainability

In the bank supervision area we are aiming for a professional department where supervisors not only have the skills but the authority to take corrective actions. In the problem bank area we are already most of the way there, two banks have been closed and are in the process of liquidation. Off-site inspection will be a longer process and it will be reflected in the development of a functioning early warning system which is actively used by other parts of both bank supervision and the bank. The other part of the program, concerning information development and bank usage (IAS conversion and bank operations) will hinge on first the full conversion of the system to IAS and then NBM examiners reports on these functions at the banks. The financial sector infrastructure program was conceived as a five-year program, given our experience with the more sophisticated systems in Eastern Europe and the pace of development in those economies' financial sectors. The program began in June 1995.

In capital markets, two principal objectives will be sought: 1) to establish the commercial viability of the MSE by implementing a business plan which addresses among other things the of lack of products available for trading; and 2) to improve the organizational, staffing and professional skill and policy-making capabilities of the SCSM so that it can effectively regulate the capital market. Within this context, USAID will propose the formation of an executive-level pay scale for the staff of the Monitoring Unit of the SCSM to ensure the continued professional operation of the Unit as an arm of the SCSM.

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

1. Problem Analysis

Moldova's energy sector, particularly the gas and electricity subsectors, are in desperate financial condition. The continued accumulation of domestic and external debt threatens economic reform, national financial viability, and political independence.

Moldenergo's (the electricity company) receivables in October, 1996 were less than half of its payables (\$225 million). Sixty percent of Moldenergo's arrears are owed to Moldovagas (the gas company). Moldovagas itself owes nearly \$600 million to Russia's Gazprom. The Government of Moldova (GOM) recently agreed to convert part of the arrears to a state debt of \$140 million.

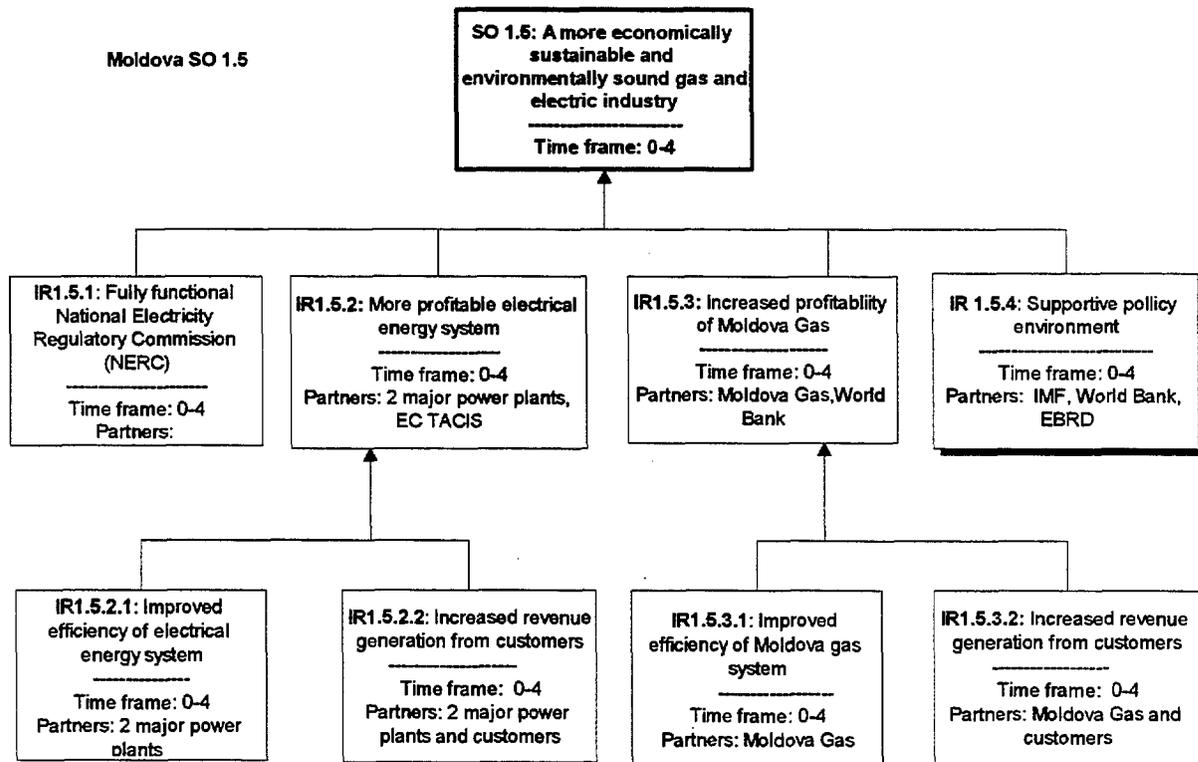
The quality of the energy supply is extremely poor. Unreliable electricity and heat system obsolescence impede the economic transition. Energy production and consumption are extremely inefficient. Electricity production and gas transmission are very wasteful. Use of energy by industries, agricultural sector and residences is inefficient due to inadequate technology, metering and disincentives due to low prices and uncertain collections.

The problems are considerable: 1) state owned energy suppliers (including Moldenergo and Moldovagas) tolerate non-payment in response to political pressure; 2) the government assumption of arrears encourages non-payment and lack of effort to raise and collect tariffs by the companies; and 3) the lack of independent regulation contributes to uneconomic pricing and consequent disinvestment in the systems and consumers wasting energy.

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

Energy sector restructuring is expected to move towards demonopolization and privatization and include transfer to the private sector of the role of importation and supply of oil products, gas and electricity. Regulation of the sector is expected to move toward establishment of a transparent, predictable regulatory regime, possibly a licensing approach administered by a professional entity.

The successful privatization of Moldovagas cannot occur absent the resolution of the severe problems resulting from nonpayment. Moreover, there is currently a draft agreement between Moldovagas 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 with GAZPROM, arguably one of the world's largest companies in terms of assets, would call into question whether USAID should continue to support restructuring efforts of Moldovagas. Progress also depends on the ability to have an impact on corporate



improvements. Additionally, progress depends on the ability of the Moldovan government to obtain needed World Bank funding (Structural Adjustment Loan 2) , which in turn is dependant upon meeting certain institutional reforms.

2. Results Framework

Transition Hypothesis

Moldovagas is a vertically-integrated, government-owned and government-operated enterprise. Assisting Moldovagas to become a more modern institution (to include the possibility of privatization) will ease its transition into becoming an effective commercial energy company. This will entail establishing a modern organizational structure, effective financial and administrative operating practices, and appropriate management information systems. The establishment of these institutional changes will enhance chances for successful privatization.

The specific USAID technical assistance objectives are indicated below.

- **Regulatory development:** The regulatory development work will include advice, analysis and preparation of key documents required to achieve a functioning independent regulatory body and limited advice on the laws, existing or proposed, affecting the energy sector.
- **Moldenergo Implementation of Reform Plan:** The work will include restructuring, corporate re-organization, electricity market definition and establishment,

commercialization and preparation for privatization.

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

Critical Assumptions

The three principle assumptions regarding this strategic objective are indicated below.

- To be economically sustainable, Moldovagas and Moldenergo will need to become viable commercial energy companies which are capable of generating profits. The commercialization of these institutions is viewed as a precondition for privatization. If GAZPROM takes part of share Moldovagaz, it is assured it will become a partner in the restructuring effort and not seek to cash out its assets.
- 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.
- Additional donor support from the World Bank will successfully assist the Government of Moldova to restructure the energy sector, make it commercially viable and attract investments.

Causal linkages

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

IR 1.5.1: Fully functional National Electricity Regulatory Commission (NERC).

Licences and tariffs will be set by the NERC in order to assure that the companies are profitable and operating according to basic standards.

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

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

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

- Improved efficiency of Moldovagas gas system (IR 1.5.3.1); and

- Increased revenue generation from customers (IR 1.5.3.2).

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

3. Judging Performance

One of the achievements of this Strategic Objective will be how much the government has reduced subsidies to the energy sector. Specifically, this will be the dollar amount that the government has allocated for subsidies. The increase in the efficiency of the energy sector will be an important achievement as it will ultimately lead to commercial sustainability. Energy efficiency will be monitored and billed. Performance will take into account the need for an energy safety net for delinquent customers (e.g., hospitals, water supply agencies).

Until now, USAID has not had a strategic setting for its work in this sector. Earlier activities in Moldova included assistance to the Chisinau CHP Number 1 and 2 power plants where advisors worked on supply-side efficiency demonstrations. Beginning in December, 1995, advisors conducted an energy efficiency audit of the power plants. Over the past few years, the contractors have also been procuring improved power plant equipment.

During 1997, USAID contractors have been in the process of installing equipment and conducting workshops on the implementation of low-cost efficient energy production methods. The contractor's work will affect approximately twenty-percent of Moldova's power production.

During the past two years, the Yankee Gas/Moldovagas partnership has introduced innovation to the gas industry as well as highlighted investment opportunities. The partnership will be an important instrument in providing additional training during restructuring. USAID will explore a similar relation with Moldenergo.

4. Commitment and Capacity of Development Partners

There are a number of international organizations providing assistance to Moldova in the energy sector. For example, the World Bank is conducting a program (MD-PA-8555) to assist the Moldovagas Company. The \$11.8 million dollar program will strengthen the Moldovagas Company's financial management and accounting systems in order to make it financially viable. The program will also improve the Moldovagas Company's ability to measure consumed energy and the efficiency of electricity production.

In addition, policy reforms are being supported by loans from the International Monetary Fund (\$200 million dollars) and the World Bank (\$100 million dollars). The European Bank of Reconstruction and Development also has a loan program in place.

5. Illustrative Approaches

The Mission will implement its interventions in concert with the World Bank's energy sector loan program. USAID will provide grant-funded technical assistance designed to assist the Government of Moldova to meet stringent World Bank institutional reforms. These grant

activities will be focused in three principle areas: institutional restructuring, improving regulation and establishing new methods for billing. Using this approach, USAID will use its resources strategically in coordination with the World Bank loan program

USAID assistance will also demonstrate U.S. approaches to increasing efficient energy through the use of improved technologies. In addition to increasing energy efficiency, the approach of demonstrating technologies will open the door to future U.S. equipment exports and trade under the World Bank loan, as well as from other international financial sources.

6. Sustainability

In order to be sustainable, Moldovagas and Moldenergo must take steps to restructure, commercialize and privatize merged gas distribution companies (Moldovagas property), electrical generating plants and low-voltage distribution companies (Moldenergo property). Re-orienting these companies into effective and profitable operations is an important step towards the elimination of government influence on gas/electricity supply business.

USAID will assist the companies to improve their public administration effectiveness by assisting them to change from vertically-integrated monopolies to more effective management organizations. The resulting privatization and increased foreign investment will assure long-term sustainability of these companies.

USAID will also assure sustainability by increasing the efficiency of gas production. It will accomplish this by assisting Moldova to generate more energy from its inefficient power plants. The identification of opportunities for Moldovagas and Moldenergo to upgrade inefficient equipment will be a first step in this regard. This information on improved equipment requirements will assist the companies to identify opportunities for foreign equipment investment and training.

The increase in the efficiency of the energy sector will be an important achievement as it will ultimately lead to commercial sustainability. Energy efficiency will be monitored and billed.

The establishment of an effective energy metering system will be a key instrument for this to be accomplished. However, efforts to monitor energy will take into account the need for an energy safety net for delinquent customers (e.g., hospitals, water supply agencies).

Improving the environmental sustainability of Moldova's energy sector will also be an important contribution of USAID activities. The improvement of institutional management efficiency and the identification of needed equipment investments will contribute to long-term environmentally sound energy generation in Moldova.

Moldova is now entirely dependent on Russia and Turkmenistan for its energy requirements. Working closely with its development partners, USAID is optimistic that it can assist the Moldovans to develop an independent, profitable and sustainable energy sector.

SO 2.1 Increased better informed citizens' participation in political and economic decision making

1. Problem Analysis

Central and local government institutions are still struggling with weaknesses in structure and process. Legal reforms have been advancing in some areas, but key areas like tax and land reform await essential changes. Procedures in government are not transparent and there is widespread belief, rightly or wrongly, that government operations are not as honest or as effective as they purport to be. There is a need for greater political support to institute reforms and to ensure that the difficult period of transition proceeds as smoothly as possible. There is a corollary need for the international community to be confident that the reforms are real and they have a good chance of success. And of immediacy to the population is the problem that services provided and protections which need to be afforded to the citizens are lacking. At the heart of the changes required in Moldova is the involvement of the people in the decisions made by their government.

To reach a greater level of participation there needs to be much more information publicly available and much more confidence of the people in both the information they receive and in their own ability to influence decisions. Without this, they will not support the reforms, or will not support them over the long term. In addition, lacking these changes Moldova will not be able to sustain the transition from generations of authoritarian rule to a democratic free-market economy.

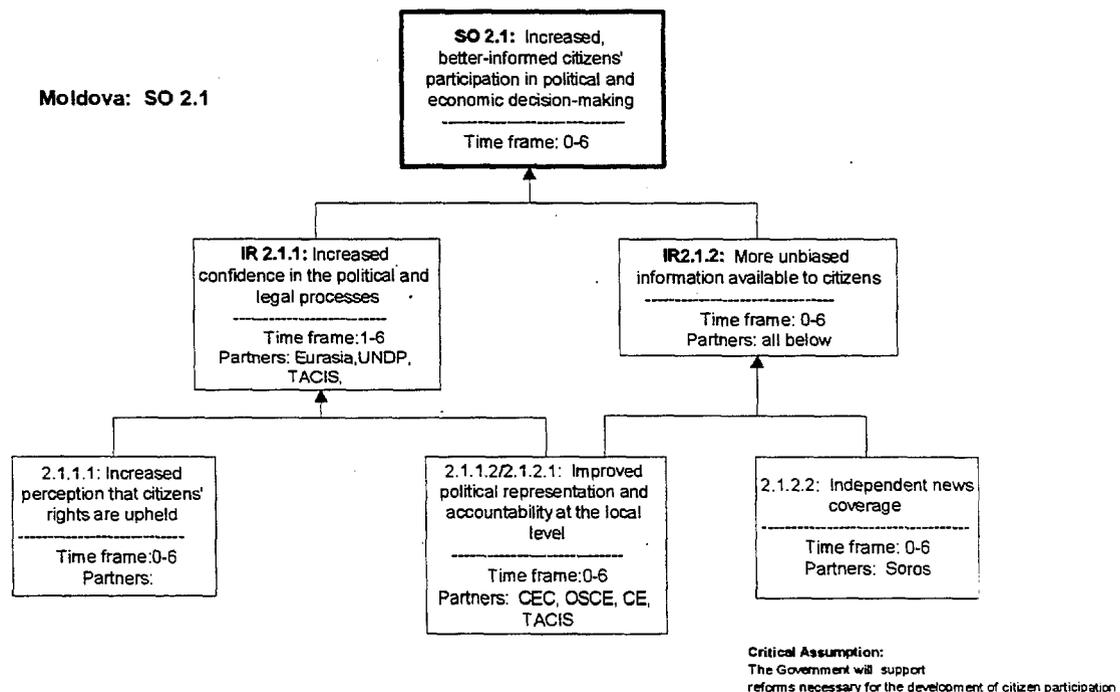
Some of the specific problems associated with increasing participation are discussed below:

- Information sources in Moldova are nascent, undeveloped, and often unavailable to most citizens. This is true whether speaking of Internet, libraries and other public repositories, or mass media. The latter is the most critical source because it reaches the majority of the population. Newspaper circulation is very low in Moldova and few if any are financially viable. Despite this, there is a large number of newspapers. However, most are supported by special interests, especially political parties, who are willing to subsidize the cost of the paper in exchange for the forum. The broadcast medium is even less viable as a source of reliable information. The central government tends to dominate the air waves and most critics outside the government consider the quality of government programming (with considerable emphasis on news reporting) as very poor and not too different from reporting during the Soviet period. The private television companies have no funds or experience to produce high quality independent news programs. Most subsist on broadcasting pirated movies and television programs dubbed in Romanian or Russian. As a result, truly independent sources of information are rare in Moldova.
- Confidence in government, and the belief that individual involvement can have an impact, begins at the local level. Most Moldovans equate government to the local authorities in the towns or *raions* in which they live. However, local governments are unequipped to address the needs of their citizens. They have neither the authority to

control their revenue, whether locally generated or transferred, nor the capacity to provide services normally rendered by government. Local governments in Moldova tend to be less reform-minded than the central government, yet in spite of their limited resources have considerable influence over the success of reform.

- Moldovans as a society do not understand their rights and responsibilities as citizens of a democratic society. Many Moldovans do not know how to go about redressing problems they have with the government. Many do not even know that they have the right to do so.
- The judicial system still lacks capacity to process complaints, civil and criminal, and therefore to support both the reforms and specifically the rights of the citizens.
- There are few active non-governmental organizations (NGOs) in Moldova, though it is reported they are growing in number. NGOs are needed to fulfill two primary roles in the country: (a) they can at least partially fill the void in services most people have come to expect from their government, including humanitarian assistance, emergency shelter and feeding centers, among other critical social services; and (b) NGOs play an important role in organizing people into groups of common cause, such as, environmental groups, journalist associations, women's groups, and private business associations, to provide a stronger voice on related issues. Most of Moldova's NGOs lack organizational skills, experience in raising funds, and know little about advocacy.

2. Results Framework



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know what rights they have and the choices at their disposal. The two intermediate results established for this strategic objective are designed to encourage the people of Moldova to take part in the critical decisions the society must make in the short term to decide the country's future and keep it on a path toward democracy and economic reform.

- **I.R 2.1.1 Increased Confidence in the Political and Legal Processes:** Western principles such as true separation of power, legal and political systems with inherent checks and balances, and accountable government, especially at the local level, are alien to Moldova. Legislation is needed to change the structure, but as important, people must be more active in participating in the changes during design and implementation. NGOs need to develop to serve as an information source and as a force of action. Local governments, the weakest link in government, must transform their practices by disclosing information and involving the citizens who do care to participate in decision making.
- **I.R. 2.1.2 More Unbiased Information Available to Citizens:** Access to information that is accurate and unbiased will help educate people on the issues confronting them at the national, regional, and local levels. Few sources now exist in Moldova. Independent media (print and broadcast), NGO information services, and other forms of non-governmental reporting will need to be developed and sustained to ensure success.

3. Judging Performance

The development of a strategic objective in the democracy assistance area is due partially to the recognition that reform as a whole will not succeed at the pace or depth desired if there are inadequate structures outside of the national government. Our focus for this strategic objective will be at the local level; on citizen participation, and related institutions such as the courts, local government, and media.

Experience to date in these areas is limited. Consequently, we have no baseline data for this strategic objective, though indicators have been established for all intermediate results. Baseline information will be obtained in 1997 through the use of surveys or the identification of existing information. This information will be used by the strategic objective team to identify monitoring targets.

Some progress has been made in the area of this Strategic Objective as the Mission has supported discrete activities in Moldova since 1994. Some of these activities are discussed below.

Voter Education

IFES is providing Moldovan citizens with information on political elections, law, and civil education. They are also supporting workshops and educational exchanges for the purpose of advancing the development of Moldova's civil society.

For example, IFES produced a multi-media campaign to promote voter awareness and education. As a result, over two hundred and fifty local observers were trained to observe

the voting process during a recent election.

NGO Development

IFES established the NGO Training and Consulting Center to conduct seminars on public administration. It also sponsors a Mass Media Working Group, a Voter Education Working Group and an NGO Working Group. These groups are providing NGOs with skills to advocate their interests through government institutions.

Local Government and Independent Media

IFES provides legal advice and public administration training seminars for politicians. These training activities provide local-level politicians and journalists with information to strengthen the independent media.

4. Commitment and Capacity of Development Partners

Only a few donors are assisting Moldova in developing democratic systems, and no one program is comprehensive. Some of the key programs on which the success of this strategic objective rely are:

- **NGO Development** - The European Union's TACIS is funding the Soros Foundation to establish a national training and information center for NGOs. The program includes the development of a data base, consulting, training and business services.
- **Local Government Development** - The United Nations Development Program assists local governments in capacity building. For example, it is providing technical assistance in the areas of strategic planning, economic development, financial and information management, and organizational development. An assessment is underway to determine the feasibility of supporting a local government academy.

5. Illustrative Approaches

The development strategy for SO 2.1 in Moldova will emphasize activities that promote transparency and increased participation, with a focus on local government. Illustrative approaches include, broadly:

- A local governance program would work at the national, local, and grassroots levels to bring about decentralization, transparency, and greater accountability. Working with the parliament and interested NGOs, the program would assist with rationalization of legislation and, possibly, drafting legislation that would restructure the territorial division of local governments. The program would also provide training and technical assistance to reform-minded local government officials to promote transparency and improve social services. Focus would include participatory governance, strategic planning, and budgeting. Another possible approach would be replication of the public transportation program successfully implemented in Ukraine, where municipalities were given assistance to improve public transportation services and increase revenues from

those services. In addition to demonstrating how municipal governments can provide better services to their constituents, such projects deliver highly visible results which demonstrate to ordinary citizens the benefits of reforms.

- Increasing the accountability of government, and consequently increasing citizens confidence in it, would be addressed in local governance programs as well as assistance to legal professionals. Such an approach would assist citizens who want to engage the legal and political systems but are unable to do so due to lack of information, resources, and confidence in the system. A major component of such an approach would be continuing legal education for law students, lawyers, judges and other legal professionals who are faced with learning a new system as well as thousands of new laws and procedures. Additionally, legal advice could be provided *pro bono* to citizens through advocacy NGOs and other associations. To further improve the ability of NGOs to provide information and services to constituents, a program may be designed to strengthen those NGOs that are most actively affecting public policy or providing critical social services.
- Increasing the amount of information available to citizens would necessarily be a component of most activities, but at least one activity should focus exclusively on it. This could take the form of a program to strengthen independent media, both print and broadcast, through training and technical assistance. The activity would focus primarily on promoting the financial sustainability of independent media, but would also aim to increase the professionalism of journalists and address inefficiencies in the legal environment affecting freedom of speech. Training seminars and long-term resident advisors would give managers and editors the skills necessary to attain financial sustainability, while technical assistance, such as access to on-line information resources and modern editing equipment, would give journalists the tools to improve the quality of their products. Given the dominance of State TV and the disparate attempts by local TV stations to compete with it, another approach could be support for a network of regional stations. As part of a national network, regional stations would benefit from shared programming and increased revenues as a result of a larger audience.

Any USAID assistance activities under this SO would be designed to complement the programs of other donors already underway in Moldova.

6. Sustainability

Moldovan citizens at the grass-roots level require assistance to confidently and effectively advocate their rights. Long development experience teaches that an active and effective civil society is a *sine qua non* to sustaining reforms. Citizen participation does not depend on the ability of government institutions to function internally. So while the reform process is in large part the responsibility of the government to pursue, it is the participation of the electorate which is needed to ensure an open society in which weaknesses are revealed and corrected and in which strengths are recognized and supported.

By promoting active citizen participation in decision making at the local level in Moldova, USAID will be making use of our comparative advantage, arising from the experience of the

Agency in Ukraine and elsewhere in the region.

Part II.B Special Initiatives

The following special initiatives are being implemented either to meet program needs in other Strategic Assistant Areas or to meet requirements mandated by Congress.

Humanitarian Assistance

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

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

- Since 1992, USAID has provided over \$70 million worth of technical and humanitarian assistance in support of Moldova's democratic, economic and social transition.
- Since 1994, the U.S. government has conducted eleven deliveries of humanitarian assistance to Moldova, consisting of sixty truckload-equivalents valued at over \$4 million.
- The U.S. government targeted two deliveries of humanitarian assistance to the most needed regions of Moldova. The first delivery, made summer 1996, consisted of six truckloads of clothing, furniture, and medical items valued at about \$370,000, distributed to fourteen medical and social service organizations. The second one, was implemented in March 1997, and consisted of three twelve-meter containers of medical supplies valued at more than \$290,000.

Eurasia Foundation

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

The following are some of the Eurasia Foundations accomplishments which are supported by

USAID:

- The Foundation is supporting a series of training seminars on the principles of market economy in several regions of Moldova targeting local governmental officials in charge of economic development.
- In the area of independent mass media and communications, the Foundation supported a number of civic organization to gain access to the world information network. This access has broadened their sources of information and international contacts.
- The Foundation supported the development of an independent journalism center. The center provides media instruction and resource materials for professionals, student and trainers of journalist. As a result, the center has contributed to the independence of the media environment.

Medical Partnerships

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

Some of USAID accomplishments to date are indicated below.

- As a result of program activities, the post-operative mortality rate in Moldova was reduced from 18.3 to 8.5.
- The Emergency Medical Services curricula was adopted by the Institute of Continuing Education for Physicians as the core curricula for advances training of feldshers.
- As a result of a comprehensive examination of the U.S. medical education system by the partners, Moldova initiated a medical education reform program. This program focuses on reducing the number of physicians and increasing quality of practice. Currently the medical school admits 400 students which is down from 950 three years ago.
- With USAID assistance, Moldova initiated a family practice residency program for medical students. Family practice offers broader based health care and indicates a movement away from a high specialized, often inefficient system.

Women's Reproductive Health Initiative

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

practices, develops public awareness materials, and increases availability of contraceptives to women.

Some of USAID accomplishments to date:

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

Part II.C Environmental Issues

Sections 118 (conservation of tropical forests) and 119 (biodiversity) of the Foreign Assistance Act do not apply to USAID's programs in Moldova.

MOLDOVA - FY 1997 - FY 2001 Strategic Plan
STRATEGIC ASSISTANCE AREAS
(Thousands of Dollars)

| | FY 97 Budget | FY 98 Request | FY 99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|---|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|
| STRATEGIC ASSISTANCE AREA 1: | | | | | | | |
| Economic Restructuring | 16,620 | 24,800 | 19,200 | 15,560 | 12,448 | 14,540 | 11,632 |
| STRATEGIC ASSISTANCE AREA 2: | | | | | | | |
| Democratic Transition | 0 | 2,200 | 1,500 | 1,900 | 400 | 950 | 360 |
| ASSISTANCE AREA 4: | | | | | | | |
| Special Initiatives/Crosscutting Programs | 6,520 | 11,800 | 11,300 | 10,920 | 8,636 | 10,082 | 7,966 |
| Performance/Management Fund | | | | | | | |
| SAA, GRAND TOTAL | 23,140 | 38,800 | 32,000 | 28,380 | 21,484 | 25,572 | 19,958 |
| Grand Total | 23,140 | 38,800 | 32,000 | 28,380 | 21,484 | 25,572 | 19,958 |

MOLDOVA - FY 1997 - FY 2001 Strategic Plan
STRATEGIC ASSISTANCE AREAS
(SAA In Percent)

| | FY 97 Budget | FY98 Request (USAID only) | FY99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|---|-----------------|---------------------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| STRATEGIC ASSISTANCE AREA 1: | | | | | | | |
| Economic Restructuring | 71.8% | 63.9% | 60.0% | 54.8% | 57.9% | 56.9% | 58.3% |
| STRATEGIC ASSISTANCE AREA 2: | | | | | | | |
| Democratic Transition | 0.0% | 5.7% | 4.7% | 6.7% | 1.9% | 3.7% | 1.8% |
| ASSISTANCE AREA 4: | | | | | | | |
| Special Initiatives/Crosscutting Programs | 28.2% | 30.4% | 35.3% | 38.5% | 40.2% | 39.4% | 39.9% |
| Performance Fund | 0.0% | 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% | 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 97 Budget | FY 98 Request | FY 99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|---------------------|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|
|---------------------|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|

| 1.1 Increased Transfer of State-owned Assets to the Private Sector | | | | | | | |
|--|--------------|--------------|--------------|----------|----------|----------|----------|
| 5.1 Privatization | 0 | | | | | | |
| 5.2 Land Markets | 6,250 | 5,000 | 4,250 | 0 | 0 | 0 | 0 |
| 5.4 Public Education for Free Market | | | | | | | |
| 8.1 Market-based Housing Sector | | | | | | | |
| 8.3 Program Design and Management | | | | | | | |
| Sub-total, 1.1 | 6,250 | 5,000 | 4,250 | 0 | 0 | 0 | 0 |

| 1.2 Increased Soundness of Fiscal Policies/Fiscal Management Practices | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 9.1 Fiscal Reform | 2,320 | 3,000 | 1,950 | 4,560 | 3,648 | 4,000 | 3,200 |
| 9.4 Program Design and Management | 0 | | | | | | |
| Sub-total, 1.2 | 2,320 | 3,000 | 1,950 | 4,560 | 3,648 | 4,000 | 3,200 |

| 1.3 Accelerated Development and Growth of Private Enterprises | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|
| 2.1 Pricing & National Policy | | | | | | | |
| 5.5 Post-Privatization Assistance to Enterprises | 1,000 | 0 | 0 | 1,000 | 800 | 1,000 | 800 |
| 5.6 Policy, Legal and Regulatory Reform | 0 | 3,500 | 1,000 | | | | |
| 5.7 Small & New Business | 400 | 2,500 | 600 | 2,000 | 1,600 | 2,000 | 1,600 |
| 5.9 Program Design and Management | 300 | 250 | 250 | 0 | 0 | 0 | 0 |
| 6.1 Storage System | 0 | | | | | | |
| 6.2 Marketing Efficiency | 0 | | 1,000 | | | | |
| 6.3 Agribusiness Partnerships | 350 | 3,400 | 3,800 | 2,500 | 2,000 | 2,500 | 2,000 |
| 6.5 Program Design & Management | 0 | | | | | | |
| 9.3.1 Market Environment | 0 | | | | | | |

| | | | | | | | |
|-----------------------------------|--------------|---------------|---------------|--------------|--------------|--------------|--------------|
| 9.4 Program Design and Management | 0 | | | | | | |
| 11.1 Enterprise Funds | 0 | 3,000 | 4,000 | 3,600 | 2,880 | 3,240 | 2,592 |
| Sub-total, 1.3 | 2,050 | 12,650 | 10,650 | 9,100 | 7,280 | 8,740 | 6,992 |

| | | | | | | | |
|--|--------------|--------------|--------------|------------|------------|------------|-----------|
| 1.4 A More Competitive and Market-responsive Private Financial Sector | | | | | | | |
| 5.3 Capital Markets | 3,700 | 1,500 | 0 | 0 | | | |
| 9.2 Financial Sector Reform | 1,500 | 750 | 750 | 0 | 0 | 0 | 0 |
| 9.3.1 Market Environment | 600 | 400 | 400 | 0 | 0 | 0 | 0 |
| 9.4 Program Design and Management | 200 | 0 | 100 | 200 | 160 | 100 | 80 |
| Sub-total, 1.4 | 6,000 | 2,650 | 1,250 | 200 | 160 | 100 | 80 |

| | | | | | | | |
|---|----------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1.5 Economically Sound/Environmentally Sustainable Energy System | | | | | | | |
| 2.2 District Heating & Energy Efficiency | | | | | | | |
| 2.3 Energy Subsector Restructuring | 0 | 1,500 | 1,100 | 1,700 | 1,360 | 1,700 | 1,360 |
| 2.6 Program Design and Management | 0 | | | | | | |
| Sub-total, 1.5 | 0 | 1,500 | 1,100 | 1,700 | 1,360 | 1,700 | 1,360 |

| | | | | | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| STRATEGIC AREA 1 TOTAL | 16,620 | 24,800 | 19,200 | 15,560 | 12,448 | 14,540 | 11,632 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|

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 97 Budget | FY 98 Request | FY 99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|--|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|
| 2.1 Increased Better Informed Citizens' Participation in Political and Economic Decision-Making | | | | | | | |
| 7.1 Political Process | 0 | 500 | 0 | 0 | 0 | | |
| 7.2 Rule of Law | 0 | 600 | 1,000 | 500 | 400 | 450 | 360 |
| 7.3 Public Administration/ Local Government | 0 | 600 | 500 | 400 | 0 | 0 | 0 |
| 7.4.2 NGO/PVO Network | 0 | 500 | 0 | 0 | 0 | 0 | 0 |
| 7.5 Independent Media | 0 | 0 | 0 | 1,000 | 0 | 500 | 0 |
| 7.6 Program Design & Management | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| STRATEGIC AREA 2 TOTAL | 0 | 2,200 | 1,500 | 1,900 | 400 | 950 | 360 |

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

| STRATEGIC OBJECTIVE | FY 97 Budget | FY 98 Request | FY 99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|--|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|
| 4.1 Special Initiatives | | | | | | | |
| 1.1 Humanitarian Assistance | 200 | 200 | 200 | 200 | 160 | 200 | 160 |
| 1.2.2 Technical Support / PD&S | 450 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.4 Nuclear Power Safety (EBRD) | | | | | | | |
| 4.1 Medical Partnerships | 600 | 0 | | | | | |
| 4.5 Women's Health / Family Planning | 300 | 300 | 300 | 500 | 300 | 500 | 300 |
| 632: Transfer: Humanitarian Transport | 500 | | | | | | |
| 632 Transfer: Peace Corps | 1,100 | 1,000 | 1,000 | 900 | 720 | 810 | 648 |
| 632 Transfer: Commerce | 100 | 4,000 | 4,000 | 3,600 | 2,880 | 3,240 | 2,592 |
| 632 Transfer: USIA Training & Exchanges | 1,360 | 2,300 | 2,800 | 2,520 | 2,016 | 2,268 | 1,814 |
| 632 Transfer: Law Enforcement | 500 | 1,000 | 1,000 | 900 | 720 | 810 | 648 |
| Defense Enterprise Fund | 0 | | | | | | |
| 632 Transfer: Nuclear Safety (DOE) | 0 | | | | | | |
| Science Centers | 0 | | | | | | |
| GATT - Commerce | 0 | | | | | | |
| 632 Transfer: Nuclear Safety (NRC & studies) | 0 | | | | | | |
| Justice | 0 | | | | | | |
| USDA - Cochran Fellow | 100 | | | | | | |
| Treasury | 710 | 1,000 | 1,000 | 900 | 720 | 810 | 648 |
| Parking Fines | 0 | | | | | | |
| 12.1 Participant Training | 100 | 0 | 0 | 500 | 400 | 634 | 507 |
| 10.0 Eurasia Foundation | 500 | 2,000 | 1,000 | 900 | 720 | 810 | 648 |
| ASSISTANCE AREA - 4: TOTAL | 6,520 | 11,800 | 11,300 | 10,920 | 8,636 | 10,082 | 7,966 |

MOLDOVA STRATEGY ANNEX:

RESULTS TREES AND

PERFORMANCE TABLES

MOLDOVA SO 1.1

SO1.1: Increased transfer of state-owned assets to the private sector

Timeframe: 0-5

IR1.1.1: Enterprises privatized through mechanisms other than National Patrimony Bonds (NPBs)

Timeframe: 0
Partner: World Bank

IR1.1.2: Housing units are privately owned

Timeframe: 0 - 5
Partner: World Bank, EU-TACIS

IR1.1.3: Farm land is privatized and titles issued

Timeframe: 0 - 5
Partner: EU-TACIS

IR1.1.4: Privatized enterprises acquire associated land and titles issued

Timeframe: 0-5
Partners: MOP

IR1.1.1.1: Enterprises privatized through National Patrimony Bonds (NPBs)

Timeframe: 0
Partner: World Bank

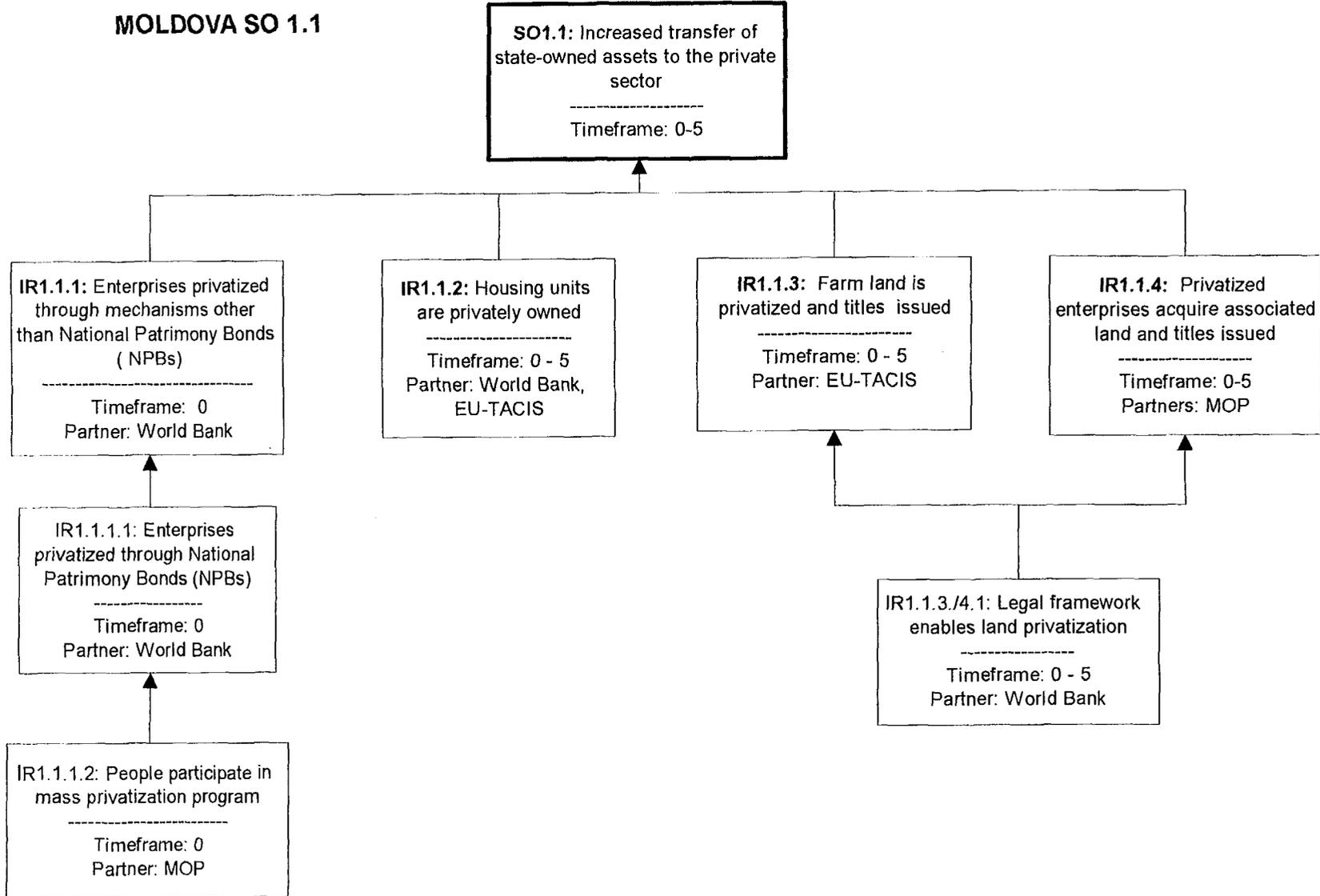
IR1.1.3./4.1: Legal framework enables land privatization

Timeframe: 0 - 5
Partner: World Bank

IR1.1.1.2: People participate in mass privatization program

Timeframe: 0
Partner: MOP

OK



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/EU-TACIS | Definition: private sector GDP Unit: percentage | 1993 | 0 | - | 40 | 45 | 50 | 55 |
| IR1.1.1: Enterprises privatized through mechanisms other than National Patrimony Bonds (NPBs). | | | | | | | | |
| 1. Medium and large enterprises originally sold for NPBs (1142 enterprises) effectively privatized. Source: MOP/IBTCI | Definition: enterprises at least 90 % private Unit: number of enterprises | 1995 | 0 | 840 | 550 | 200 | 300 | N/A |
| 2. Enterprises not offered for NPBs, including small-scale and unfinished constructions transferred to the private sector. Source: MOP/IBTCI | Definition: appr. 470 such entities not including those in case-by-case privatization, have been identified in 1995-1996 and draft 1997-1998 Privatization Programs Unit: number of enterprises | 1995 | 0 | N/A | 45 | 150 | 250 | N/A |

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| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|---|---------------|-------|---------------|---|---|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| IR 1.1.1.1: Enterprises privatized for National Patrimony Bonds (NPBs). | | | | | | | | |
| 1. Medium and large state enterprises privatized (10-100% of their assets under private control). Source: MOP | Definition: enterprises privatized through closed share for subscription process Unit: number of enterprises | 1993 | 0 | 1,142 | 1,089 | Not applicable - the activity was completed 11/30/95 | | |
| 2. Small-scale enterprises sold (100% of assets under private control). Source: MOP | Definition: enterprises privatized through open outcry auctions Unit: number of enterprises | 1993 | 0 | 1,200 | 1,093 (GOM records) 1,393 (Contractor records) | Not applicable - the activity was completed 11/30/95 | | |
| IR 1.1.1.2: People participate in mass privatization program. | | | | | | | | |
| 1. Number of privatization bonds picked up by the public. Source: MOP | Definition: more than 3 million NPBs issued Unit: percentage | 1993 | 0 | 100 | 98 | Not applicable - the activity was completed on 11/30/95 | | |
| 2. Number of privatization bonds invested. Source: MOP | Definition: NPBs to acquire ownership in privatized enterprises Unit: percentage | 1993 | 0 | 100 | 93 | 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 1.1.2: Housing units are privately owned. | | | | | | | | |
| 1. Number of units privatized. Source: MOP | Definition: number of privatized apartments formerly for NPBs; as of 1997 for cash only Unit: cumulative number | 1994 | 102,000 | 180,000 | 200,000 | 200,020 | 200,120 | 200,320 |
| Note: GOM's Privatization Law was recently amended to continue the use of patrimony bonds to purchase apartments through end of 1996. | | | | | | | | |
| IR 1.1.3: Farm land is privatized and titles issued. | | | | | | | | |
| 1. State or collective farms broken up. Source: MOP | Definition: multiple private owners Unit: cumulative number of farms | 1995 | 0 | 1 | 1 | 70 | 150 | 300 |
| 2. Number of rural land titles issued to individual members of state or collective farms. Source: MOP | Definition: title shows private ownership by individual farmers Unit: cumulative number of titles | 1995 | 0 | 0 | 430 | 70,000 | 150,000 | 300,000 |

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| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
| | | YEAR | VALUE | 1996 | | 1997 | 1998 | 1999 |
| | | | | Target | Actual | Target | Target | Target |
| IR 1.1.4: Privatized enterprises acquire associated land and titles issued. | | | | | | | | |
| 1. Number of enterprises acquiring associated land. Source: MOP | Definition: accounting for funds transfer or other evidence Unit: cumulative number | 1996 | 0 | 8-16 | 0 | 60 | 130 | 210 |
| 2. Number of titles issued. Source: existing registry (at local mayor's office), Booz Allen & Hamilton | Definition: title allows sale and mortgage rights of land Unit: cumulative number | 1995 | 0 | 8-16 | 0 | 60 | 130 | 210 |
| 3. The number of sales to 3rd parties. Source: Booz Allen & Hamilton | Definition: base is 16 pilot areas Unit: cumulative number | 1996 | 0 | 0 | 0 | 10 | 25 | 40 |
| IR 1.1.3./4.1: Legal framework enables land privatization. | | | | | | | | |

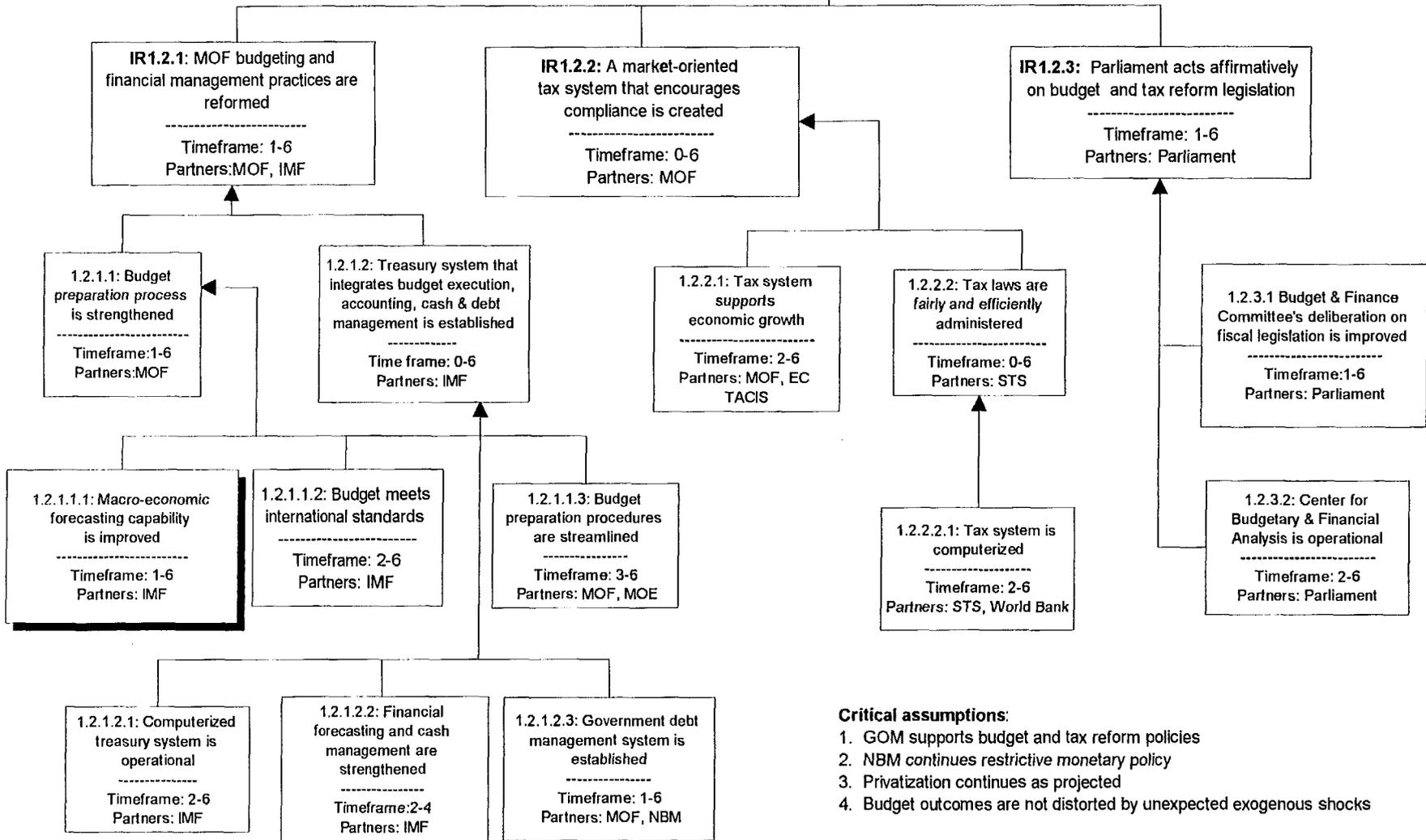
| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|--|---------------|-------|---------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 1. Land prices reduced Source: MOP, Parliament, Booz Allen & Hamilton | Definition: Parliament adopts amendment to Law on Normative Prices of Land Unit: Yes/No - qualitative assessment as to if an improved system is implemented | 1996 | No | Yes | No | Yes | Yes | Yes |
| 2. GOM adopts decision to streamline rural land titling and registration procedures. Source: MOP, MOA, Parliament | Definition: expert opinion on whether actual costs and transaction costs are reduced Unit: Yes/No plus narrative | 1996 | No | No | No | Yes | Yes | Yes |

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Moldova: SO 1.2

SO1.2: Increased soundness of fiscal policies and fiscal management practices

 Timeframe: 0-6



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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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 (3.5% target) | No (6.2% actual) | Yes (3.5% target) | 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 | No | 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 |
| 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 | 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 | 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 | Yes | Yes | N/A | N/A |
| | | 1995 | No | No | Yes | Yes | N/A | N/A |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
| | | YEAR | VALUE | 1996 | | 1997 | 1998 | 1999 |
| | | | | Target | Actual | Target | Target | Target |
| IR 1.2.1.1.3 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 | No | Yes | Yes | Yes |
| IR 1.2.1.2: Treasury system that integrates budget execution, accounting, cash and debt management is implemented [IMF] | | | | | | | | |
| 1. Treasury organization adopted. Source: MOF-Treasury | Definition: Treasury organization adopted along lines recommended by joint Treasury, USAID, and IMF mission Unit: Yes/No | 1995 | No | 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 |
| 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 (base = +/- 800) Unit: number of accounts moved to Treasury (cumulative) | 1995 | 0 | 200 | 0 (regulations being drafted) | 400 | 800 | |
| IR 1.2.1.2.1: Computerized treasury system is operational | | | | | | | | |
| 1. Pilot treasury system is implemented. Source: MOF-Treasury | Definition: pilot system established for one regional treasury linked to the central treasury Unit: Yes/No | 1995 | No | Yes | Yes | N/A | N/A | N/A |
| 2. Treasury system is fully deployed. Source: MOF-Treasury | Definition: operating system installed and fully tested Unit: percentage completed | 1995 | 0 | 40 | 0 | 100 | N/A | N/A |
| IR 1.2.1.2.2: Financial forecast and cash management are strengthened. | | | | | | | | |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|--|---------------|-------|---------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 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 | Yes | N/A | N/A | N/A |

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| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|---|---|---------------|-------|---------------|--|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| IR 1.2.1.2.3: 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 | 1995 | No | Yes | No | Yes | Yes | Yes |
| 2. Percent of deficit financed by government securities increases Source: MOF-Securities Dept. | Definition: Unit: percent | 1995 | 33 | 60 | 32 | 70 | 80 | 90 |
| IR 1.2.2: A market-oriented tax system that encourages compliance is created. | | | | | | | | |
| 1. Tax base broadening. Source: MOF-Tax Analysis Unit | Definition: sources of income subject to tax Unit: number | 1996 | N/A | N/A | 30,000 self-employed; 900,000 employees; 120,000 employers-taxpayers | 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. Expected vs generated. Source: | Definition: revenue compared to expected with full compliance Unit: percent | 1996 | N/A | N/A | 25 | 30 | 40 | 60 |
| 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 | tax code in third reading in Parliament | single law | N/A | N/A |
| 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 | No | Yes | Yes |
| IR 1.2.2.2 Tax laws are fairly and efficiently administered | | | | | | | | |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|--|---------------|-------|---------------|--------------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 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 (1.1%) | No | Yes | Yes |

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| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|--|---------------|---------|---------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| IR 1.2.2.2.1 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 | 4 | 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, MOF | Definition: law establishes procedures and deadlines for executive and legislative action on the budget Unit: drafted/submitted/passed/promulgated/in force | 1995 | drafted | submitted | passed | N/A | N/A | N/A |
| 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 | 15 | 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 | | | | | | | | |
| <p>1. Independent budget and financial analysis is conducted to support Budget and Finance Committee , Economy, Industry and Privatization Committee, Committee on Agriculture and Processing Industry and Parliament's deliberations.</p> <p>Source: CBFA, Budget and Finance Committee', Economy, Industry and Privatization Committee, Committee on Agriculture and Processing Industry</p> | <p>Definition: CBFA provides budget and financial reports required by law on center for budgeting and financial analysis (following enactment)</p> <p>Unit: Yes/No</p> | 1995 | No | No | No | Yes | Yes | Yes |

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

IR1.3.1: Wide availability and flow of business-related information and services

 Timeframe: 0-5
 Partners: as below

IR1.3.2: Legal, regulatory and political environment conducive to sustainable enterprise growth.

 Timeframe: 0-6
 Partners: as below

IR1.3.3: Selected agricultural joint ventures created

 Timeframe: 0-5
 Partners: US/Moldovan private firms, Ministry of Agriculture

IR1.3.4: Venture capital investment supplied.

 Timeframe: 0-5
 Partners: WestNIS Enterprise Fund, Eurasia Foundation

1.3.1.1: Business management consulting industry developed

 Timeframe: 0-5
 Partners: Moldovan firms, World Bank, EU-TACIS, MOP

1.3.1.2: USAID Business networks expanded.

 Timeframe: 0-5
 Partners: private Moldovan firms, NGOs

1.3.1.3: Business training widely available.

 Timeframe: 0-5
 Partners: private US and Moldovan firms, Mo/US educational institutions

1.3.2.1: Commercial legal systems developed.

 Timeframe: TBD
 Partners: TBD

1.3.2.2: International accounting standards adopted

 Timeframe: 0-2
 Partners: EU/TACIS, IMF/IFC/IBRD, MOF, Parliament

1.3.2.3: An open trade regime.

 Timeframe: TBD
 Partners:GTZ, EU-TACIS, UK Know How Fund

1.3.2.4: Corporate governance standards followed.

 Timeframe: 0-5
 Partners: World Bank, EU-TACIS, SCSM

1.3.2.5: Functioning bankruptcy system, including financial restructuring.

 Timeframe: TBD
 Partners: TBD

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.

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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 | BASELINE DATA | | CALENDAR YEARS | | | | |
|---|--|---------------|--------|----------------|------------------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| Strategic Objective 1.3: Accelerated development and growth of private enterprises. | | | | | | | | |
| 1. Private sector firms operating and generating employment. Source: Ministry of Statistics/DAI | Definition: annual percent increase of registered firms over baseline Unit: percent increase | 1996 | 15,642 | 20,000 | 310% (48,555) | 5% | 10% | 15% |
| IR 1.3.1: Wide availability and flow of business-related information and services. | | | | | | | | |
| 1. Circulation of top business periodical in Moldova: <u>Economic Review/LogosPress</u> Source: periodical circulation | Definition: number of printed copies Unit: percentage increase yearly | 1996 | 8,000 | N/A | N/A | 5 | 10 | 15 |
| IR 1.3.1.1: Business management consulting industry developed. | | | | | | | | |
| 1. Positive environment for business management consulting industry. Source: Chamber of Commerce of Moldova | Definition: number of registered management consulting firms based on proxy review of industry Unit: number | 1995 | 45 | -- | 74 | 81 | 89 | 98 |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEARS | | | | |
|--|---|---------------|--------------|----------------|--------------|--------------------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 2. USAID-assisted consulting firms demonstrate ability to secure business clients. Source: EWMI | Definition: number of paid engagements for all six USAID-assisted consulting firms Unit: number and \$ collected | 1995 | 0 \$0 | 0 \$0 | 0 \$0 | 63 \$85,000 | N/A | N/A |
| IR 1.3.1.2: USAID business networks expanded. | | | | | | | | |
| 1. Number of participants in informal business information network. Source: DAI/NewBizNet | Definition: number of participants in business/information network of NewBizNet program Unit: number | 1996 | 0 | 200 | 215 | 300 | 400 | 500 |
| 2. Number of paying subscribers in formal business networks. Source: DAI/NewBizNet | Definition: number of clients who participate regularly or return for different assistance Unit: number | 1995 | 0 | 0 | 0 | 50 | 75 | 150 |
| IR 1.3.1.3: Business training widely available. | | | | | | | | |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEARS | | | | |
|---|---|---------------|-------|----------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 1. Number of participants who complete USAID business training. Source: DAI development training | Definition: number of participants completed DAI development training Unit: number | 1995 | 0 | 700 | 754 | 1,000 | 1,500 | 2,000 |

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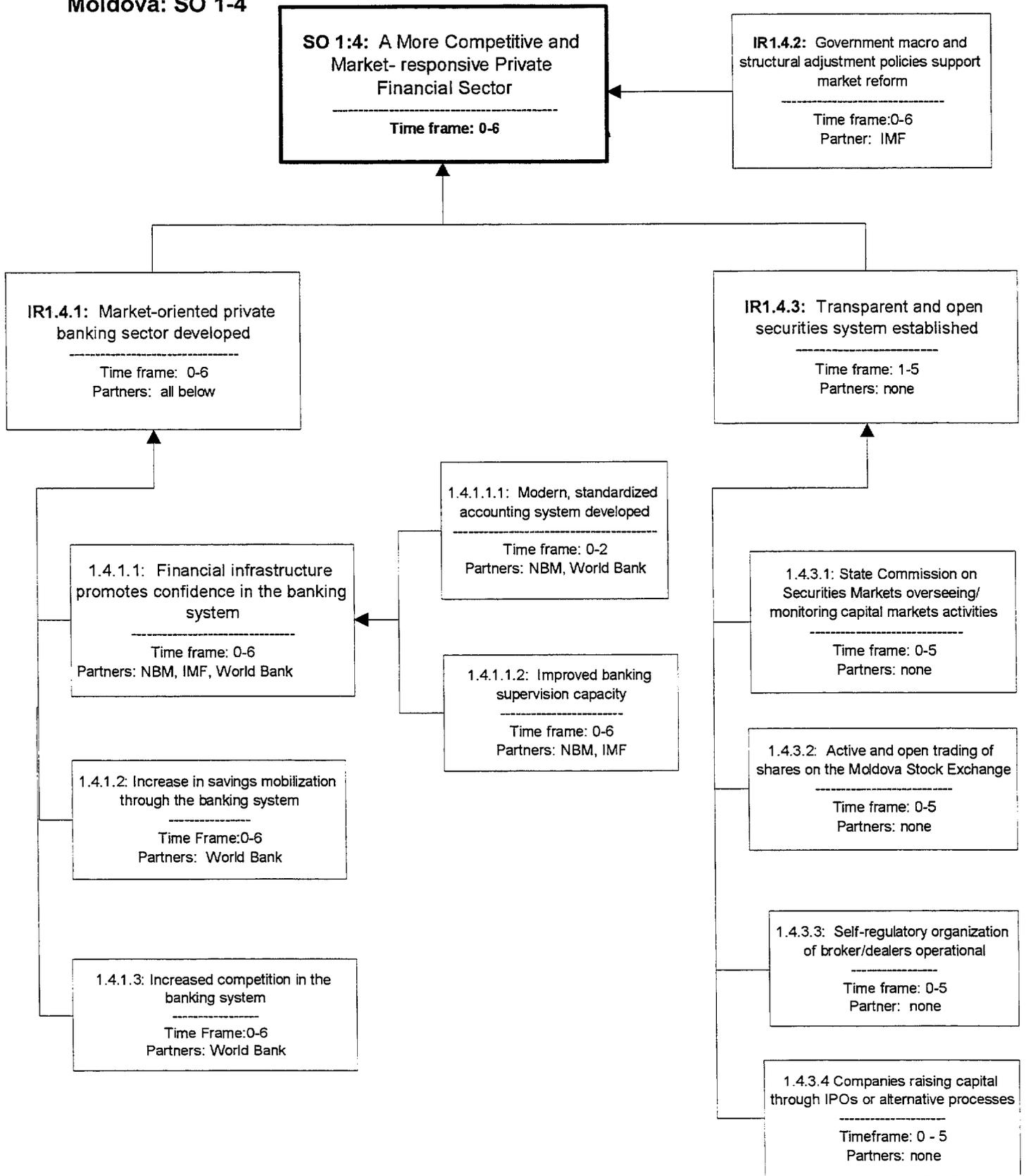
| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEARS | | | | |
|--|---|-------------------|-------|----------------|--------|----------------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| IR 1.3.2: Legal, regulatory and political environment conducive to sustainable enterprise growth. | | | | | | | | |
| 1. Direct foreign investment in Moldova. Source: Ministry of Statistics, MOJ | Definition: total value of cumulative direct foreign investment Unit: cumulative dollar (millions) | 1995 January 1 | 22.9 | -- | 63.5 | 100.0 | TBD | TBD |
| IR 1.3.2.1: Commercial legal systems developed. | | | | | | | | |
| 1. Laws passed. Source: Parliament | Definition: list of laws TBD in 1997 Unit: number | 1996 | None | N/A | N/A | list developed | 1 | TBD |
| IR 1.3.2.2: International accounting standards adopted. | | | | | | | | |
| 1. Dues-paying members of the Moldovan association performing as a self-regulating organization (SRO). Source: SROs | Definition: membership of the Association of Moldovan Accountants and Auditors of the Republic of Moldova Unit: cumulative number of persons | 1995 | 0 | 0 | 200 | 300 | 450 | 600 |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEARS | | | | |
|---|---|---------------|-------|----------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 2. Certification program offered by association develops professional qualifications of accountants and auditors. Source: | Definition: certificate for certified accountant issued to accountants and auditors who have completed and passed all three levels of examination Unit: cumulative number of persons | 1996 | 0 | 0 | 0 | 0 | 10 | 20 |
| 3. Number of companies listed on stock market with financial statement conforming to IAS standards as defined by State Commission on Securities Markets. Source: Securities Commission | Definition: number of listed companies submitting financial statements that meet standards Unit: number | 1995 | 0 | 0 | 0 | 0 | 10 | 20 |
| IR 1.3.2.3: An open trade regime. | | | | | | | | |
| 1. Compliance with GATT/WTO standards. Source: WTO | Definition: accession to WTO Unit: Yes/No | 1995 | No | No | No | No | Yes | 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 1.3.2.4: Corporate governance standards followed. | | | | | | | | |
| 1. Number of corporations that file annual reports with State Commission on Securities Markets (SCSM). Source: SSMSC/Intrados | Definition: annual corporate reports Unit: number | 1995 | 0 | 10 | 70 | 105 | 158 | 197 |
| IR 1.3.2.5: 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) | 0 | 0 | 2 | 10 |
| IR 1.3.3: Selected agricultural joint ventures created. | | | | | | | | |
| 93 1. Number of new joint ventures created through FSRP. Source: FSRP implementor, Enterprise Fund | Definition: joint US/Moldovan joint ventures Farm Service Centers: Ag.Processing enterprises: Unit: cumulative number | 1995 | 0 1 | 1 2 | 0 0 | 2 4 | 3 8 | 3 12 |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEARS | | | | |
|--|---|---------------|-------|----------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 2. Amount of U.S. private investment leveraged by joint ventures created. Source: CNFA | Definition: only those monies that are reflected in developing contracts of counterpart commitment Unit: \$ (millions) | 1993 | 0.25 | 1.5 | 0 | 4.0 | 11.0 | 12.0 |
| IR 1.3.4: 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: cumulative \$ million | 1995 | 0 | 0 | 3.01 | 6.0 | 8.0 | TBD |
| IR 1.3.5: SO 1.1 Transfer of state owned assets. SO 1.4 Private financial sector. SO 1.2 Fiscal policies. | | | | | | | | |

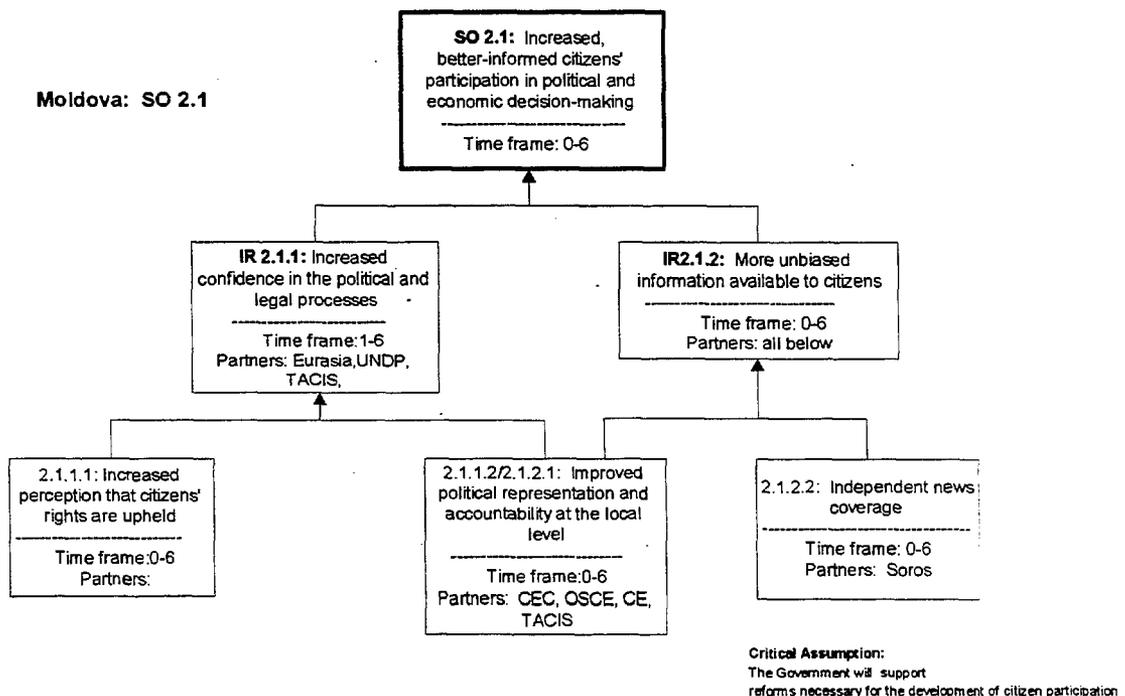
Moldova: SO 1-4



control their revenue, whether locally generated or transferred, nor the capacity to provide services normally rendered by government. Local governments in Moldova tend to be less reform-minded than the central government, yet in spite of their limited resources have considerable influence over the success of reform.

- Moldovans as a society do not understand their rights and responsibilities as citizens of a democratic society. Many Moldovans do not know how to go about redressing problems they have with the government. Many do not even know that they have the right to do so.
- The judicial system still lacks capacity to process complaints, civil and criminal, and therefore to support both the reforms and specifically the rights of the citizens.
- There are few active non-governmental organizations (NGOs) in Moldova, though it is reported they are growing in number. NGOs are needed to fulfill two primary roles in the country: (a) they can at least partially fill the void in services most people have come to expect from their government, including humanitarian assistance, emergency shelter and feeding centers, among other critical social services; and (b) NGOs play an important role in organizing people into groups of common cause, such as, environmental groups, journalist associations, women's groups, and private business associations, to provide a stronger voice on related issues. Most of Moldova's NGOs lack organizational skills, experience in raising funds, and know little about advocacy.

2. Results Framework



Transition Hypothesis

USAID's program in Moldova has centered largely on economic reform. But the successful transition from a centrally planned to a market economy is inextricably linked to the active role that citizens must play if the changes are to take root and if the new processes and the new mentality are to be sustained. If the population at large does not receive what it feels it needs, and if there are no trustworthy vehicles for involving themselves directly in the process of change, the reforms will not be honored and eventually the country will be fractured at all levels. Success will come when the people of Moldova have the information they need to challenge as well as to endorse, and when they see that government responds in a way which gives them confidence in the changes and in the system itself.

Critical Assumptions

- **Moldova will remain independent and unify rebellious republics into a fairly cohesive state.** Ethnic tension have eased over the last few years, although some ethnic Romanians still advocate unification with Romania. The Transdneister problem remains unresolved. But the Moldovan government successfully negotiated a settlement to the Gagauz crisis, and unification with Romania is no longer considered a viable possibility. Moreover, the GOM has made very positive overtures to Transdneister about reintegration by offering the breakaway republic a great amount of autonomy. Within the time period of the Mission's strategy, we expect a successful outcome on the Transdneister issue.
- **The media will continue to operate without strong government interference.** Freedom House ranks Moldova partly free in its assessment of press freedom throughout the world. State-run news agencies gloss over serious problems in the country and at times fail to report negative newsworthy items. But these represent a small percentage of all news sources, and government interference in the media is not yet considered to be a problem. The concern is whether the Government will continue to allow uncensored reporting of news that contradicts government reports. Without an open press, success of this S.O. will be in jeopardy.
- **The GOM will pass enabling legislation to devolve revenue authority.** To a lesser extent, this SO also hinges on reforming how local government is elected, financed and administered. The central government appoints governors, they are not elected by constituents. Moreover, the central government controls a majority of the resources through taxes and transfers. National interference in local decision making is also widespread. Government accountability and responsiveness requires that local government be able to respond directly to local needs.

Causal Linkages

To move toward a more democratic society, the people must perceive that they have the ability to influence change. Relatively high voter turnout (60 percent in last presidential election), a tradition held over from the Soviet era, belies general political apathy. Few people participate in non-governmental organizations, especially outside the capital. Few

know what rights they have and the choices at their disposal. The two intermediate results established for this strategic objective are designed to encourage the people of Moldova to take part in the critical decisions the society must make in the short term to decide the country's future and keep it on a path toward democracy and economic reform.

- **I.R. 2.1.1 Increased Confidence in the Political and Legal Processes:** Western principles such as true separation of power, legal and political systems with inherent checks and balances, and accountable government, especially at the local level, are alien to Moldova. Legislation is needed to change the structure, but as important, people must be more active in participating in the changes during design and implementation. NGOs need to develop to serve as an information source and as a force of action. Local governments, the weakest link in government, must transform their practices by disclosing information and involving the citizens who do care to participate in decision making.
- **I.R. 2.1.2 More Unbiased Information Available to Citizens:** Access to information that is accurate and unbiased will help educate people on the issues confronting them at the national, regional, and local levels. Few sources now exist in Moldova. Independent media (print and broadcast), NGO information services, and other forms of non-governmental reporting will need to be developed and sustained to ensure success.

3. Judging Performance

The development of a strategic objective in the democracy assistance area is due partially to the recognition that reform as a whole will not succeed at the pace or depth desired if there are inadequate structures outside of the national government. Our focus for this strategic objective will be at the local level; on citizen participation, and related institutions such as the courts, local government, and media.

Experience to date in these areas is limited. Consequently, we have no baseline data for this strategic objective, though indicators have been established for all intermediate results. Baseline information will be obtained in 1997 through the use of surveys or the identification of existing information. This information will be used by the strategic objective team to identify monitoring targets.

Some progress has been made in the area of this Strategic Objective as the Mission has supported discrete activities in Moldova since 1994. Some of these activities are discussed below.

Voter Education

IFES is providing Moldovan citizens with information on political elections, law, and civil education. They are also supporting workshops and educational exchanges for the purpose of advancing the development of Moldova's civil society.

For example, IFES produced a multi-media campaign to promote voter awareness and education. As a result, over two hundred and fifty local observers were trained to observe

the voting process during a recent election.

NGO Development

IFES established the NGO Training and Consulting Center to conduct seminars on public administration. It also sponsors a Mass Media Working Group, a Voter Education Working Group and an NGO Working Group. These groups are providing NGOs with skills to advocate their interests through government institutions.

Local Government and Independent Media

IFES provides legal advice and public administration training seminars for politicians. These training activities provide local-level politicians and journalists with information to strengthen the independent media.

4. Commitment and Capacity of Development Partners

Only a few donors are assisting Moldova in developing democratic systems, and no one program is comprehensive. Some of the key programs on which the success of this strategic objective rely are:

- **NGO Development** - The European Union's TACIS is funding the Soros Foundation to establish a national training and information center for NGOs. The program includes the development of a data base, consulting, training and business services.
- **Local Government Development** - The United Nations Development Program assists local governments in capacity building. For example, it is providing technical assistance in the areas of strategic planning, economic development, financial and information management, and organizational development. An assessment is underway to determine the feasibility of supporting a local government academy.

5. Illustrative Approaches

The development strategy for SO 2.1 in Moldova will emphasize activities that promote transparency and increased participation, with a focus on local government. Illustrative approaches include, broadly:

- A local governance program would work at the national, local, and grassroots levels to bring about decentralization, transparency, and greater accountability. Working with the parliament and interested NGOs, the program would assist with rationalization of legislation and, possibly, drafting legislation that would restructure the territorial division of local governments. The program would also provide training and technical assistance to reform-minded local government officials to promote transparency and improve social services. Focus would include participatory governance, strategic planning, and budgeting. Another possible approach would be replication of the public transportation program successfully implemented in Ukraine, where municipalities were given assistance to improve public transportation services and increase revenues from

off

those services. In addition to demonstrating how municipal governments can provide better services to their constituents, such projects deliver highly visible results which demonstrate to ordinary citizens the benefits of reforms.

- Increasing the accountability of government, and consequently increasing citizens confidence in it, would be addressed in local governance programs as well as assistance to legal professionals. Such an approach would assist citizens who want to engage the legal and political systems but are unable to do so due to lack of information, resources, and confidence in the system. A major component of such an approach would be continuing legal education for law students, lawyers, judges and other legal professionals who are faced with learning a new system as well as thousands of new laws and procedures. Additionally, legal advice could be provided *pro bono* to citizens through advocacy NGOs and other associations. To further improve the ability of NGOs to provide information and services to constituents, a program may be designed to strengthen those NGOs that are most actively affecting public policy or providing critical social services.
- Increasing the amount of information available to citizens would necessarily be a component of most activities, but at least one activity should focus exclusively on it. This could take the form of a program to strengthen independent media, both print and broadcast, through training and technical assistance. The activity would focus primarily on promoting the financial sustainability of independent media, but would also aim to increase the professionalism of journalists and address inefficiencies in the legal environment affecting freedom of speech. Training seminars and long-term resident advisors would give managers and editors the skills necessary to attain financial sustainability, while technical assistance, such as access to on-line information resources and modern editing equipment, would give journalists the tools to improve the quality of their products. Given the dominance of State TV and the disparate attempts by local TV stations to compete with it, another approach could be support for a network of regional stations. As part of a national network, regional stations would benefit from shared programming and increased revenues as a result of a larger audience.

Any USAID assistance activities under this SO would be designed to complement the programs of other donors already underway in Moldova.

6. Sustainability

Moldovan citizens at the grass-roots level require assistance to confidently and effectively advocate their rights. Long development experience teaches that an active and effective civil society is a *sine qua non* to sustaining reforms. Citizen participation does not depend on the ability of government institutions to function internally. So while the reform process is in large part the responsibility of the government to pursue, it is the participation of the electorate which is needed to ensure an open society in which weaknesses are revealed and corrected and in which strengths are recognized and supported.

By promoting active citizen participation in decision making at the local level in Moldova, USAID will be making use of our comparative advantage, arising from the experience of the

Agency in Ukraine and elsewhere in the region.

Part II.B Special Initiatives

The following special initiatives are being implemented either to meet program needs in other Strategic Assistant Areas or to meet requirements mandated by Congress.

Humanitarian Assistance

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

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

- Since 1992, USAID has provided over \$70 million worth of technical and humanitarian assistance in support of Moldova's democratic, economic and social transition.
- Since 1994, the U.S. government has conducted eleven deliveries of humanitarian assistance to Moldova, consisting of sixty truckload-equivalents valued at over \$4 million.
- The U.S. government targeted two deliveries of humanitarian assistance to the most needed regions of Moldova. The first delivery, made summer 1996, consisted of six truckloads of clothing, furniture, and medical items valued at about \$370,000, distributed to fourteen medical and social service organizations. The second one, was implemented in March 1997, and consisted of three twelve-meter containers of medical supplies valued at more than \$290,000.

Eurasia Foundation

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

The following are some of the Eurasia Foundations accomplishments which are supported by

USAID:

- The Foundation is supporting a series of training seminars on the principles of market economy in several regions of Moldova targeting local governmental officials in charge of economic development.
- In the area of independent mass media and communications, the Foundation supported a number of civic organization to gain access to the world information network. This access has broadened their sources of information and international contacts.
- The Foundation supported the development of an independent journalism center. The center provides media instruction and resource materials for professionals, student and trainers of journalist. As a result, the center has contributed to the independence of the media environment.

Medical Partnerships

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

- As a result of program activities, the post-operative mortality rate in Moldova was reduced from 18.3 to 8.5.
- The Emergency Medical Services curricula was adopted by the Institute of Continuing Education for Physicians as the core curricula for advances training of feldshers.
- As a result of a comprehensive examination of the U.S. medical education system by the partners, Moldova initiated a medical education reform program. This program focuses on reducing the number of physicians and increasing quality of practice. Currently the medical school admits 400 students which is down from 950 three years ago.
- With USAID assistance, Moldova initiated a family practice residency program for medical students. Family practice offers broader based health care and indicates a movement away from a high specialized, often inefficient system.

Women's Reproductive Health Initiative

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

practices, develops public awareness materials, and increases availability of contraceptives to women.

Some of USAID accomplishments to date:

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

Part II.C Environmental Issues

Sections 118 (conservation of tropical forests) and 119 (biodiversity) of the Foreign Assistance Act do not apply to USAID's programs in Moldova.

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PART III

RESOURCE REQUIREMENTS

FOR

MOLDOVA STRATEGIC PLAN

MOLDOVA - FY 1997 - FY 2001 Strategic Plan
STRATEGIC ASSISTANCE AREAS
(Thousands of Dollars)

| | FY 97 Budget | FY 98 Request | FY 99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|---|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|
| STRATEGIC ASSISTANCE AREA 1: | | | | | | | |
| Economic Restructuring | 16,620 | 24,800 | 19,200 | 15,560 | 12,448 | 14,540 | 11,632 |
| STRATEGIC ASSISTANCE AREA 2: | | | | | | | |
| Democratic Transition | 0 | 2,200 | 1,500 | 1,900 | 400 | 950 | 360 |
| ASSISTANCE AREA 4: | | | | | | | |
| Special Initiatives/Crosscutting Programs | 6,520 | 11,800 | 11,300 | 10,920 | 8,636 | 10,082 | 7,966 |
| Performance/Management Fund | | | | | | | |
| SAA, GRAND TOTAL | 23,140 | 38,800 | 32,000 | 28,380 | 21,484 | 25,572 | 19,958 |
| Grand Total | 23,140 | 38,800 | 32,000 | 28,380 | 21,484 | 25,572 | 19,958 |

MOLDOVA - FY 1997 - FY 2001 Strategic Plan
STRATEGIC ASSISTANCE AREAS
(SAA in Percent)

| | FY 97 Budget | FY98 Request (USAID only) | FY99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|---|-----------------|---------------------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| STRATEGIC ASSISTANCE AREA 1: | | | | | | | |
| Economic Restructuring | 71.8% | 63.9% | 60.0% | 54.8% | 57.9% | 56.9% | 58.3% |
| STRATEGIC ASSISTANCE AREA 2: | | | | | | | |
| Democratic Transition | 0.0% | 5.7% | 4.7% | 6.7% | 1.9% | 3.7% | 1.8% |
| ASSISTANCE AREA 4: | | | | | | | |
| Special Initiatives/Crosscutting Programs | 28.2% | 30.4% | 35.3% | 38.5% | 40.2% | 39.4% | 39.9% |
| Performance Fund | 0.0% | 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% | 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 97 Budget | FY 98 Request | FY 99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|---------------------|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|
|---------------------|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|

| 1.1 Increased Transfer of State-owned Assets to the Private Sector | | | | | | | |
|--|--------------|--------------|--------------|----------|----------|----------|----------|
| 5.1 Privatization | 0 | | | | | | |
| 5.2 Land Markets | 6,250 | 5,000 | 4,250 | 0 | 0 | 0 | 0 |
| 5.4 Public Education for Free Market | | | | | | | |
| 8.1 Market-based Housing Sector | | | | | | | |
| 8.3 Program Design and Management | | | | | | | |
| Sub-total, 1.1 | 6,250 | 5,000 | 4,250 | 0 | 0 | 0 | 0 |

| 1.2 Increased Soundness of Fiscal Policies/Fiscal Management Practices | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 9.1 Fiscal Reform | 2,320 | 3,000 | 1,950 | 4,560 | 3,648 | 4,000 | 3,200 |
| 9.4 Program Design and Management | 0 | | | | | | |
| Sub-total, 1.2 | 2,320 | 3,000 | 1,950 | 4,560 | 3,648 | 4,000 | 3,200 |

| 1.3 Accelerated Development and Growth of Private Enterprises | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|
| 2.1 Pricing & National Policy | | | | | | | |
| 5.5 Post-Privatization Assistance to Enterprises | 1,000 | 0 | 0 | 1,000 | 800 | 1,000 | 800 |
| 5.6 Policy, Legal and Regulatory Reform | 0 | 3,500 | 1,000 | | | | |
| 5.7 Small & New Business | 400 | 2,500 | 600 | 2,000 | 1,600 | 2,000 | 1,600 |
| 5.9 Program Design and Management | 300 | 250 | 250 | 0 | 0 | 0 | 0 |
| 6.1 Storage System | 0 | | | | | | |
| 6.2 Marketing Efficiency | 0 | | 1,000 | | | | |
| 6.3 Agribusiness Partnerships | 350 | 3,400 | 3,800 | 2,500 | 2,000 | 2,500 | 2,000 |
| 6.5 Program Design & Management | 0 | | | | | | |
| 9.3.1 Market Environment | 0 | | | | | | |

| | | | | | | | |
|-----------------------------------|--------------|---------------|---------------|--------------|--------------|--------------|--------------|
| 9.4 Program Design and Management | 0 | | | | | | |
| 11.1 Enterprise Funds | 0 | 3,000 | 4,000 | 3,600 | 2,880 | 3,240 | 2,592 |
| Sub-total, 1.3 | 2,050 | 12,650 | 10,650 | 9,100 | 7,280 | 8,740 | 6,992 |

| | | | | | | | |
|--|--------------|--------------|--------------|------------|------------|------------|-----------|
| 1.4 A More Competitive and Market-responsive Private Financial Sector | | | | | | | |
| 5.3 Capital Markets | 3,700 | 1,500 | 0 | 0 | | | |
| 9.2 Financial Sector Reform | 1,500 | 750 | 750 | 0 | 0 | 0 | 0 |
| 9.3.1 Market Environment | 600 | 400 | 400 | 0 | 0 | 0 | 0 |
| 9.4 Program Design and Management | 200 | 0 | 100 | 200 | 160 | 100 | 80 |
| Sub-total, 1.4 | 6,000 | 2,650 | 1,250 | 200 | 160 | 100 | 80 |

| | | | | | | | |
|---|----------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1.5 Economically Sound/Environmentally Sustainable Energy System | | | | | | | |
| 2.2 District Heating & Energy Efficiency | | | | | | | |
| 2.3 Energy Subsector Restructuring | 0 | 1,500 | 1,100 | 1,700 | 1,360 | 1,700 | 1,360 |
| 2.6 Program Design and Management | 0 | | | | | | |
| Sub-total, 1.5 | 0 | 1,500 | 1,100 | 1,700 | 1,360 | 1,700 | 1,360 |

| | | | | | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| STRATEGIC AREA 1 TOTAL | 16,620 | 24,800 | 19,200 | 15,560 | 12,448 | 14,540 | 11,632 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|

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 97 Budget | FY 98 Request | FY 99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|--|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|
| 2.1 Increased Better Informed Citizens' Participation in Political and Economic Decision-Making | | | | | | | |
| 7.1 Political Process | 0 | 500 | 0 | 0 | 0 | | |
| 7.2 Rule of Law | 0 | 600 | 1,000 | 500 | 400 | 450 | 360 |
| 7.3 Public Administration/ Local Government | 0 | 600 | 500 | 400 | 0 | 0 | 0 |
| 7.4.2 NGO/PVO Network | 0 | 500 | 0 | 0 | 0 | 0 | 0 |
| 7.5 Independent Media | 0 | 0 | 0 | 1,000 | 0 | 500 | 0 |
| 7.6 Program Design & Management | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| STRATEGIC AREA 2 TOTAL | 0 | 2,200 | 1,500 | 1,900 | 400 | 950 | 360 |

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

| STRATEGIC OBJECTIVE | FY 97 Budget | FY 98 Request | FY 99 Request | FY 2000 Request | FY 2000 -20% | FY 2001 Request | FY 2001 -20% |
|--|-----------------|------------------|------------------|--------------------|-----------------|--------------------|-----------------|
| 4.1 Special Initiatives | | | | | | | |
| 1.1 Humanitarian Assistance | 200 | 200 | 200 | 200 | 160 | 200 | 160 |
| 1.2.2 Technical Support / PD&S | 450 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.4 Nuclear Power Safety (EBRD) | | | | | | | |
| 4.1 Medical Partnerships | 600 | 0 | | | | | |
| 4.5 Women's Health / Family Planning | 300 | 300 | 300 | 500 | 300 | 500 | 300 |
| 632: Transfer: Humanitarian Transport | 500 | | | | | | |
| 632 Transfer: Peace Corps | 1,100 | 1,000 | 1,000 | 900 | 720 | 810 | 648 |
| 632 Transfer: Commerce | 100 | 4,000 | 4,000 | 3,600 | 2,880 | 3,240 | 2,592 |
| 632 Transfer: USIA Training & Exchanges | 1,360 | 2,300 | 2,800 | 2,520 | 2,016 | 2,268 | 1,814 |
| 632 Transfer: Law Enforcement | 500 | 1,000 | 1,000 | 900 | 720 | 810 | 648 |
| Defense Enterprise Fund | 0 | | | | | | |
| 632 Transfer: Nuclear Safety (DOE) | 0 | | | | | | |
| Science Centers | 0 | | | | | | |
| GATT - Commerce | 0 | | | | | | |
| 632 Transfer: Nuclear Safety (NRC & studies) | 0 | | | | | | |
| Justice | 0 | | | | | | |
| USDA - Cochran Fellow | 100 | | | | | | |
| Treasury | 710 | 1,000 | 1,000 | 900 | 720 | 810 | 648 |
| Parking Fines | 0 | | | | | | |
| 12.1 Participant Training | 100 | 0 | 0 | 500 | 400 | 634 | 507 |
| 10.0 Eurasia Foundation | 500 | 2,000 | 1,000 | 900 | 720 | 810 | 648 |
| ASSISTANCE AREA - 4: TOTAL | 6,520 | 11,800 | 11,300 | 10,920 | 8,636 | 10,082 | 7,966 |

MOLDOVA STRATEGY ANNEX:

RESULTS TREES AND

PERFORMANCE TABLES

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 Statistical Dept, (Auriel Margenariu) | Definition: share of total commercial bank credits to private enterprises and households as a percentage of total bank credits Unit: percentage | 1995 | 35 | 38 | 45 | 50 | 55 | 60 |
| IR 1.4.1: Market-oriented private banking sector developed. | | | | | | | | |
| 1. Role of total assets of former state banks decreases relative to new private banks. Source: NBM: Bank Supervision Dept | Definition: total assets of four formerly state owned banks relative to total assets of banking system declines (Agroind Bank, Banca Sociala, Moldincon Bank, Savings Bank) Unit: percentage | 1995 | 70 | 65 | 67 | 62 | 57 | 52 |

| 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: Financial infrastructure promotes confidence in the banking system. | | | | | | | | |
| 1. Share of deposits in total bank funding increases Source: NBM Bank Supervision Dept | Definition: deposit as a percentage of total bank funding (deposits + borrowings from NBM) Unit:percentage | 1995 | 63 | 67 | 66 | 70 | 73 | 75 |
| IR 1.4.1.1.1: Modern, standardized accounting system developed. | | | | | | | | |
| 1. International Accounting Standards (IAS) adopted by commercial banks Source: AID Rep | Definition: conversion to IAS Unit: Yes/No | 1995 | No | Yes | No | Yes | Yes | Yes |
| IR 1.4.1.1.2: Improved banking supervision capacity. | | | | | | | | |
| 1. NBM Bank Supervision's average composite rating of banks improved. Source: NBM: Bank Supervision | Definition: average composite rating of all banks in Moldova by NBM Bank Supervision Unit's standard rating system (excluding banks in receivership) Unit: 1-5 (one best) | 1995 | 3.6 | 3.3 | 2.9 | 2.8 | 2.7 | 2.6 |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 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 | No | Yes | Yes | Yes |
| IR 1.4.1.2: Increase in savings mobilization through the banking system. | | | | | | | | |
| 1. Increase private sector investment. Source: TACIS, Moldovan Economic Trends | Definition: currency plus demand plus time deposits as percentage of GDP (M2/GDP) Unit: percentage | 1995 | 13 | 16 | 16 | 18 | 21 | 24 |
| IR 1.4.1.3: Increased competition in the banking system. | | | | | | | | |
| 1. Fall in intermediation spread. Source: NBM Statistical Department | Definition: average loan rate minus average rate on deposits Unit: percentage (end of year) | 1995 | 35 | 25 | 13 | 11 | 10 | 9 |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|--|--------------------|-----------|---------------|----------|-----------|-----------|-----------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 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 | Yes |
| IR 1.4.3: Transparent and open securities system established. | | | | | | | | |
| 1. Total corporate securities market capitalization. Source: Securities Commission and Stock Exchange | Definition: sum of the equity values of all the listed companies that have traded at least once on a stock exchange or in organized market in the year Unit: dollar | 1995 (6 months) | \$8.5 mln | - | \$6.1mln | \$7.7 mln | \$8.6 mln | \$9.4 mln |
| IR 1.4.3.1: State Commission on Securities Markets overseeing/monitoring capital markets activities | | | | | | | | |
| 1. Laws and decrees passed developing the securities market regulatory framework. Source: | Definition: list includes 10 principal laws and regulations, e.g., Law on Joint-Stock Companies, Law on National Commission for Securities Market, Law on Pledge, Law on Trust Companies, Law on SROs, Law on Corporate Bonds, etc. Unit: cumulative number | 1995 | 0 | - | 1 | 2 | 3 | 4 |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|--|---------------|-----------|---------------|-----------|----------|----------|----------|
| | | YEAR | VALUE | 1996 | | 1997 | 1998 | 1999 |
| | | | | Target | Actual | Target | Target | Target |
| 2. Enforcement/corrective actions taken Source: SCSM | Definition: penalties, sanctions, delicensing, deregistration, temporary suspension Unit: cumulative number | 1995 | 3 | - | 22 | 50 | 100 | 120 |
| 1.4.3.2: Active and open trading of shares on the Moldova Stock Exchange (MSE) | | | | | | | | |
| 1. Volume of shares traded (number and value) by enterprises <u>listed</u> in the MSE. Source: MSE | Definition: \$ value of shares traded annually; number of these shares Unit: dollars and number | 1995 | \$482,000 | - | \$997,000 | \$1.1mln | \$1.3mln | \$1.5mln |
| | | 1995 | 337,000 | - | 944,000 | TBD | TBD | TBD |
| 2. Volume of shares traded (number and value) by enterprises <u>unlisted</u> on the MSE Source: MSE | Definition: \$ value of shares traded annually; number of these shares Unit: dollars and number | 1995 | \$12,000 | - | \$1.5mln | \$1.6mln | \$2.2mln | \$2.6mln |
| | | 1995 | 2,700 | - | 2.6 mln | 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 |
| 3. Number of companies trading on the Exchange increases yearly. Source: MSE/Intrados | Definition: number of companies whose shares are annually traded on Exchange Unit: number of companies | 1994 | 0 | - | 86 | 95 | 104 | 114 |
| | | 1995 | 6 | | | | | |
| 1.4.3.3: Rule-making association/Self-regulatory organization of broker/dealers operational. | | | | | | | | |
| 1. Evidence of corrective action taken. Source: National Association of Securities Broker-Dealers/Intrados | Definition: suspension, expulsion, or warning Unit: number of actions plus narrative | 1995 | - | - | - | 0 | 1 | 1 |
| 1.4.3.4: Companies raising capital through IPOs or alternative processes. | | | | | | | | |
| 1. Number of companies raising capital. Source: SCSM, MSE,MOF, Intrados, IBTCI | Definition: number of companies with public offerings Unit: number | 1995 | 0 | - | 0 | 6 | 5 | 8 |

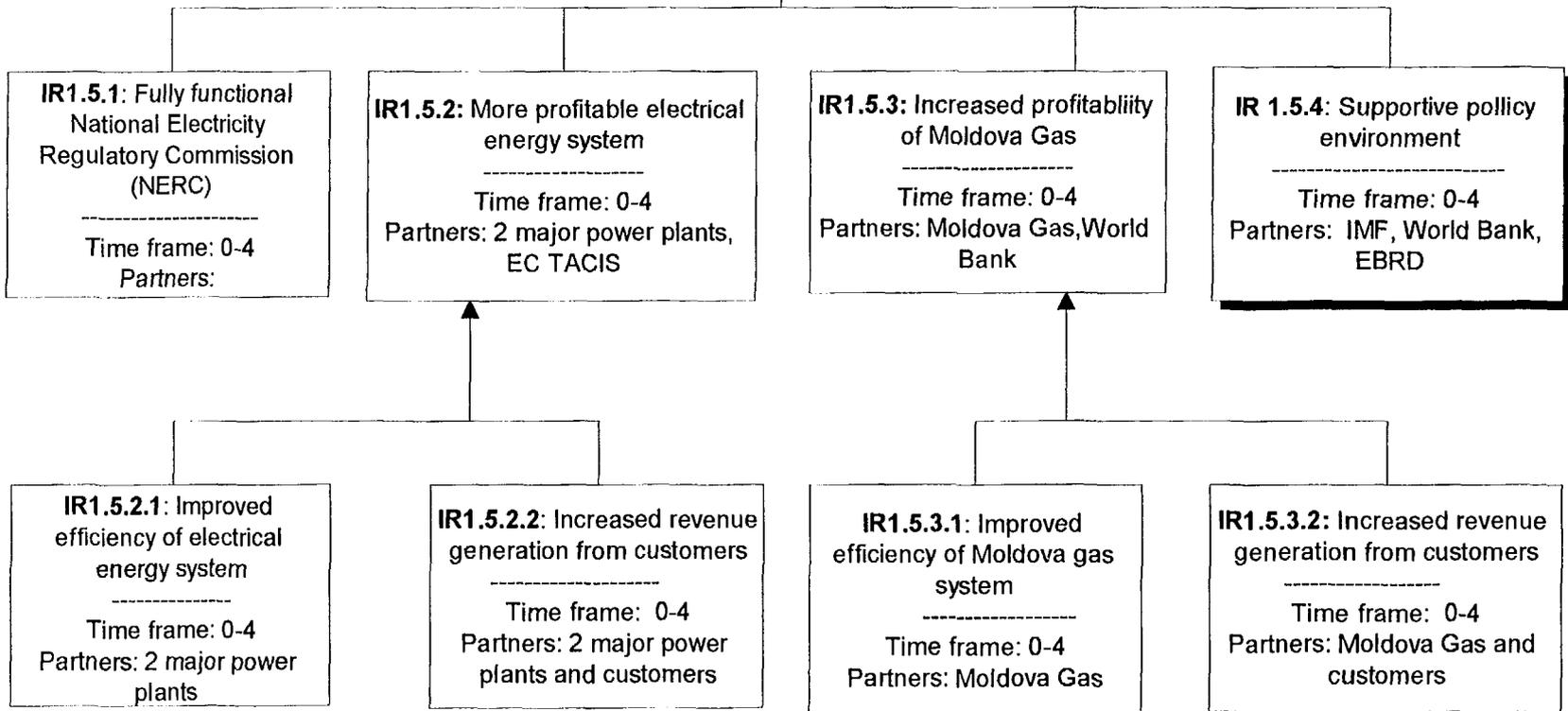
| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|---|---|---------------|-------|---------------|--------|---------|---------|---------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 2. Amount of capital raised. Source: SCSM, MSE, Intrados, IBTCI, MOF | Definition: capital raised annually through initial public offerings and/or private placements Unit: dollars | 1995 | 0 | - | 0 | \$10mln | \$8 mln | \$8 mln |

W

Moldova SO 1.5

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

Time frame: 0-4



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Moldova: SO 1.5

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
| | | YEAR | VALUE | 1996 | | 1997 | 1998 | 1999 |
| | | | | Target | Actual | Target | Target | Target |
| Strategic Objective 1.5: A more economically sustainable and environmentally sound gas and electric industry. | | | | | | | | |
| 1. Reduction in budgetary subsidies for power and energy resources production. Source: GOM Budget, Ministry of Finance | Definition: amount of central budget line items for power and gas sectors Unit: \$ millions | | | | | | | |
| 2. Reduction in energy consumption per unit of economic output. Source: | Definition: percent above OECD level Unit: percent | | | | | | | |
| IR 1.5.1: Fully functional National Electricity Regulatory Commission (NERC). | | | | | | | | |
| 1. Market-based wholesale/retail tariffs introduced. Source: NERC decrees, World Bank | Definition: wholesale/retail tariffs = operating cost plus profit margin Unit: Yes/No | | | | | | | |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| 2. Increased number of stock companies operating in a market environment. Source: NERC decrees, World Bank | Definition: licenses issued by NERC to generating companies, local electric companies, independent suppliers Unit: cumulative number of licenses | | | | | | | |
| IR 1.5.2: More profitable electrical energy system. | | | | | | | | |
| 1. Increased profit margin at two major power plants. Source: 2 major power plants | Definition: revenue (from all sources) divided by expenses (from all sources including debt servicing) Unit: percentage | | | | | | | |
| IR 1.5.2.1: Improved efficiency of electrical energy system. | | | | | | | | |
| 1. Lower break even point for customer cost per KWH. Source: Moldenergo | Definition: average cost to consumer to cover all system costs Unit: dollars | | | | | | | |

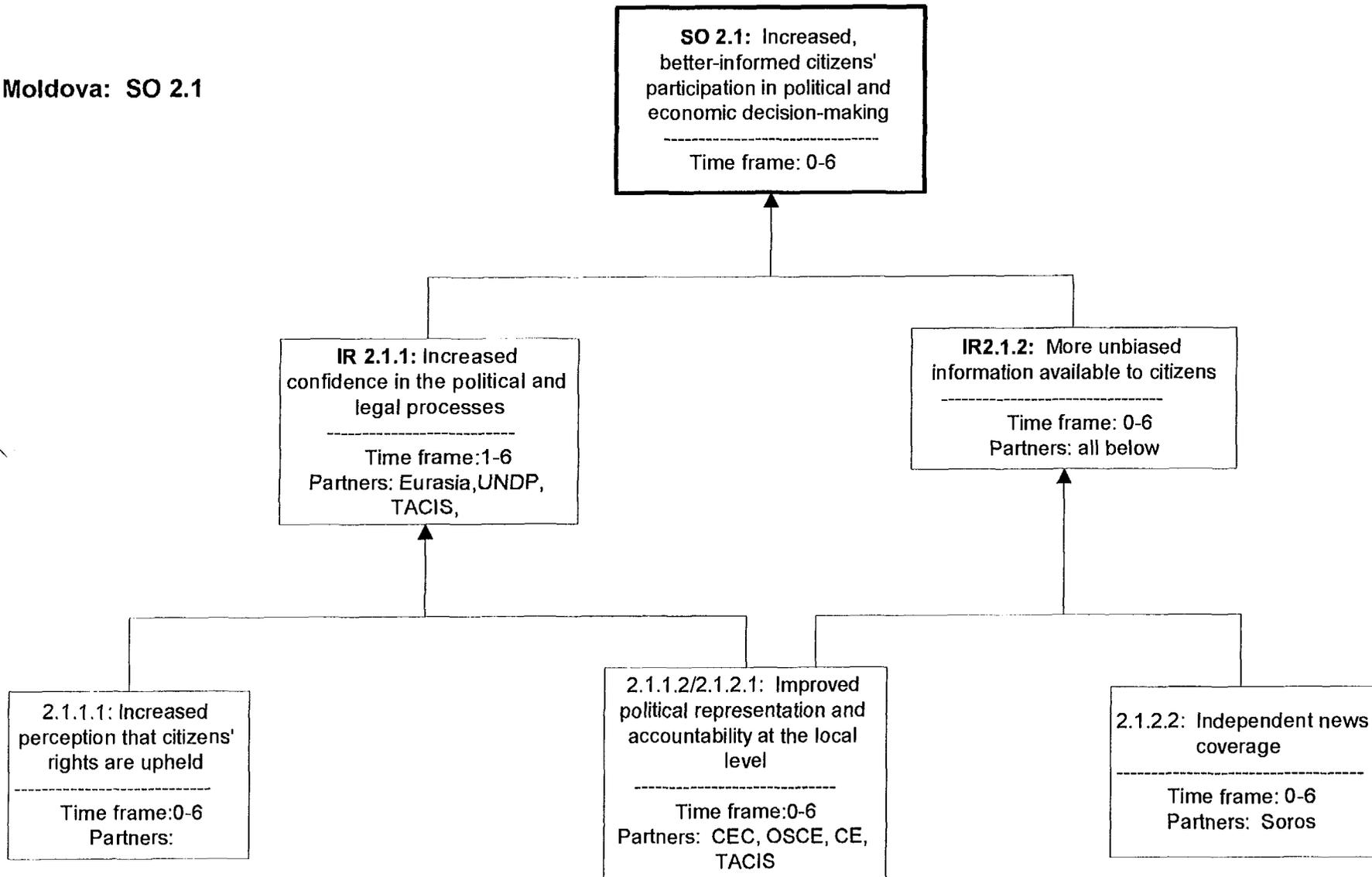
| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
| | | YEAR | VALUE | 1996 | | 1997 | 1998 | 1999 |
| | | | | Target | Actual | Target | Target | Target |
| IR 1.5.2.2: Increased revenue generation from customers. | | | | | | | | |
| 1. Average consumer revenue per KWH increases. Source: Moldenergo | Definition: proportion of customer revenue to KWHs generated Unit: dollars | | | | | | | |
| IR 1.5.3: Increased profitability of Moldova Gas (MG) | | | | | | | | |
| 1. Increased revenue compared to expenses for Moldova Gas increases. Source: Moldova Gas | Definition: revenue from all sources and expenses from all sources, including debt servicing Unit: percentage | | | | | | | |
| IR 1.5.3.1: Improved efficiency of Moldova Gas system. | | | | | | | | |
| 1. Decreased operating costs per 1000 cu. meter. Source: Moldova Gas | Definition: total operating costs divided by total cu. Meters (1000s) Unit: percentage | | | | | | | |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | CALENDAR YEAR | | | | |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| IR 1.5.3.2: Increased revenue generation from customers. | | | | | | | | |
| 1. Average consumer revenue per 1000cu. meter. Source: Moldova Gas | Definition: total consumer revenue divided by total cu. meters (1000's) consumed Unit: dollars | | | | | | | |
| IR 1.5.4: Supportive policy environment. | | | | | | | | |
| 1. The GOM meets World Bank energy sector restructuring conditions and requirements. Source: World Bank | Definition: as defined by the World Bank Unit: Yes/No | | | | | | | |

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Moldova: SO 2.1

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Critical Assumption:
The Government will support reforms necessary for the development of citizen participation

Moldova: SO 2.1

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | | | | | |
|--|---|---------------|-------|--------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| Strategic Objective 2.1: Increased, better-informed citizens' participation in political and economic decision-making. | | | | | | | | |
| 1. Number of citizens who participate in NGO activities. Source: USAID polling | Definition: increase in number of people participating in NGOs Unit: percentage | | | | | | | |
| I.R.2.1.1: Increased confidence in the political and legal processes. | | | | | | | | |
| 1. Percentage of people who believe they could do something about an infringement of their rights by the government. Source: Democratic Initiatives polling | Definition: more people answering "yes" to a random sample, forced choice question- "If the government were to make a decision that infringes upon the interests of the people, could you do anything against such a decision?" Unit: percentage | | | | | | | |
| I.R.2.1.1.1: Increased perception that citizens' rights are upheld. | | | | | | | | |
| 1. Citizens who believe that their rights are upheld. Source: Democratic initiatives polling | Definition: people who answer "sufficient" to a random sample, forced question- "Legal protection is defending my rights and interests" Unit: percentage | | | | | | | |

| PERFORMANCE INDICATOR | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA | | | | | | |
|---|--|---------------|-------|--------|--------|--------|--------|--------|
| | | | | 1996 | | 1997 | 1998 | 1999 |
| | | YEAR | VALUE | Target | Actual | Target | Target | Target |
| I.R. 2.1.1.2/2.1.2.1: Improved political representation and accountability at the local level. | | | | | | | | |
| 1. Local budget process open to public participation. Source: survey | Definition: percentage of local governments which publish budgets and/or hold discussion fora open to the public Unit: percent of oblasts | | | | | | | |
| I.R. 2.1.2: More unbiased information available to citizens. | | | | | | | | |
| 1. Independent TV news programming. Source: independent media records | Definition: increase in hours per week Unit: hours | | | | | | | |
| I.R. 2.1.2.1: Independent news coverage. | | | | | | | | |
| 1. Non-governmental sources of information. Source: USAID (contractors) | Definition: increase in NGO publications Unit: percent | | | | | | | |