

USAID/Moldova

Annual Report

FY 2004

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Please Note:

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Moldova

Performance:

Background: The dismal economic condition of Moldova inherited from the former Soviet Union was made worse with the loss of traditional markets in the East and a painful economic transition during the 1990's. This transition has proceeded slowly and sporadically, and support for reform amongst the population is not unanimous. The reform process has imposed hardships on the Moldovan people, and there is a general perception that the process was tainted with corruption and has become unjustly beneficial for well-positioned and well-connected individuals. After the 2001 presidential election, gradually conditions started to improve. At that time, the Communist Party of Moldova (CPM) was elected to the office in what most observers consider to be a reasonably free and fair process. The election of the CPM was based upon the opinion shared by the majority of the population - the previous "reform" government was corrupt, not accountable and certainly not proactive in helping to improve the economic and social conditions within the country. Unfortunately, the CPM-dominated Government of Moldova (GOM) in many instances has demonstrated the same negative qualities as the previous regime.

Nearly 50 percent of Moldovan GDP, 40 percent of employment and 65 percent of exports is related to agriculture (if agribusiness is included). More than a half of country's population lives in rural areas and makes its living from agriculture related activities. According to the EBRD, GDP per capita is \$448. According to a 2002 household survey, over 40 percent of Moldovans live in absolute poverty. Over 70 percent of the poor live in rural area and only 8 percent in large cities. According to the Moldovan Security Service, between 600,000 and 1,000,000 Moldovan citizens (approximately 25 percent of the population) are working abroad, most of them illegally. There are instances when approximately a half the population has migrated from some villages. Some of those who seek employment abroad do succeed in finding a gainful employment. Others, primarily young women, are not as lucky and are lured into forced prostitution. The International Organization for Migration (IOM) estimated that every year approximately 10,000 women who go abroad in search of work are from Moldova. Although no official statistics exists, IOM estimates that the majority of women trafficked come from rural areas. Most of them are between 15 and 30 years old, over 10 percent are under the age of 18, and some are as young as 12.

Although the GOM has not denounced pro-democratic, economic and social reform initiatives that were introduced during the 1990's, they have been selective in their support of some reform measures and have worked hard to reverse or derail others. Previously, USAID and the U.S. Embassy were encouraged by the government's efforts to maintain a strong working relationship with the USG despite initial concerns about CPM rhetoric and a number of anti-reform measures taken by the GOM. More recently, the commitment of the GOM to economic and market reforms has been questioned by the USG and the donor community at large. In 2003, relations between the GOM and both the IMF and the World Bank deteriorated significantly. Though the GOM continues to issue statements about its commitment to the reform process, its actions often speak otherwise. Currently, the situation with regard to reform in Moldova is highly volatile, being heavily influenced by the upcoming February 2005 elections and the intensified negotiations over a new federal constitution that would reintegrate the breakaway republic in Transnistria with Moldova.

Important foreign investors have left the country, while others have faced substantial levels of intervention from the authorities. Corruption remains a serious problem. Other factors that have adversely affected the situation in Moldova include a general decline in the world economy, the reduction in trade with its historically largest trading partner, Russia, and the economic dislocations caused by the breakaway of Transnistria region, which has the majority of Moldova's heavy industry. Drought of 2003 was reported to be the worst since 1945, further exacerbating growth in the agri-business sector and restricting the GDP growth for the country this year.

Beneficiaries: The principal beneficiaries of the USAID strategic assistance for Moldova are the poor or the impoverished working citizens who constitute the majority of the population, particularly in rural areas. USAID's strategy concentrates on job creation, income generation and economic opportunity in rural areas. USAID encourages growth through investment in agribusiness and improving the environment for private enterprise. It also focuses on developing effective, responsive and accountable democratic institutions by strengthening local government autonomy and civil society; and helping to assist Moldova's most vulnerable citizens.

U.S. Interests and Goals: Geopolitically, Moldova remains important to U.S. interests. A democratic Moldova with a growing economy and improved social services sector will enhance the trade borders with Romania, which is scheduled to join the European Union in 2007, and it will contribute to the continued development of a Western-oriented Ukraine. The USAID program in Moldova continues to focus on SME and agri-business development, local government reform, citizen participation and citizen rights protection, fighting infectious diseases and anti-trafficking.

Donor Relations: Donor coordination is maintained through frequent meetings with all bilateral and multilateral donors. The U.S. is the only major bilateral donor. Germany, the Netherlands, Japan, Great Britain and Sweden have small bilateral programs. The Soros Foundation and several other private organizations run development programs in Moldova. In addition to U.S. bilateral assistance, the other major players include such multilateral donors as the International Monetary Fund (economic policy), the World Bank (economic policy, social investment fund, micro-projects at the village level and energy), the EU Technical Assistance to the Commonwealth of Independent States (agricultural sector) and the International Fund for Agriculture Development (agriculture sector). The United Nations Development Program provides support for a number of separate activities.

Challenges: The key challenges to achieving economic growth, accountable government and improved social conditions for Moldovan citizens are the CPM-dominated GOM preferences to use regressive tactics that hinder the development of a prosperous society. The Parliament has not acted on many of the laws that have been recommended by USAID and other donors. The insincere commitment to privatization and transparency demonstrated by the GOM in the energy sector has resulted in severe setbacks in energy privatization. The environment for investment has been so soured by the GOM harassment of Union Fenosa (the Spanish operator of three of the five electrical distribution companies in Moldova) that it is unrealistic to move forward with the sale of the 2 remaining non-privatized electrical distribution companies. The energy regulatory agency can not be described as an independent agency - it is constantly under pressure from the highest levels of government not to increase tariffs and not to investigate questionable transaction. During FY04, all USAID energy sector activities (with the exception of a couple of minor activities) will be phased out. USAID terminated its Low Income Energy and Social Assistance Program (LIESAP) without reimbursing the GOM for subsidies paid to low income consumers served by privatized electrical distribution companies. This early phase-out from the energy sector will send a strong message to the GOM with regard to its commitment to the reform process.

The CPM is trying to re-assert control at the national and local level. The international community observed procedural irregularities and expressed concern about the GOM's abuse of power. The GOM has increased restrictions on political parties, reversed local government reform intended to devolve power from the central authorities; increased manipulation of the media; and pushed russification policies in education that are detrimental to other ethnicities in Moldova. Despite GOM efforts, the competing interests of the parliament and the presidency have resulted in weak governmental institutions. Lack of internal resources has also prevented the introduction of much needed bodies, such as audit commissions.

Key Achievements: In 2003, the final stages of the fiscal reform program focused on increasing soundness of fiscal policies and management practices, and on institutionalizing an NGO, which will continue to pursue these policies and practices. With USAID assistance, Moldova has made a steady progress in its fiscal reform by eliminating its budget deficit and increasing tax collections. Earlier this year, EBRD forecast 5-6 percent real GDP growth for 2003. This growth is impressive considering that

since independence and prior to 2000, Moldova recorded only one year of positive GDP growth. The Financial Management Training and Advisory Activity provided training in financial and management accounting to professional accountants, enterprise financial managers and university-level faculty members. Results included: (1) establishment of a financial management training and advisory facility; (2) an effectively run Association of Professional Accountants and Auditors of Moldova and their membership in the International Council of Certified Accountants and Auditors; (3) accounting and audit curriculum reform for the Academy of Economic Studies of Moldova.

USAID helped the Moldova agri-business sector to develop processes that have significantly increased sales and value of farm produce. The substantial increase in the sale of value-added produce has mitigated the effects of the drought. The country did not experience a significant decrease in GDP despite drought-induced problems in the agriculture sector. Preliminary estimates indicate there might be a small increase in growth in this sector for the fourth consecutive year since completing the agriculture land privatization. The agricultural reform policy team achieved significant success by leading the effort against re-collectivizing of agricultural land. It has presented the data and arguments needed by the donor community and international financial institutions to convince the GOM to cease and desist from aggressive anti-reform activities in the agri-business sector. Accomplishing this was extremely difficult because the CPM dominated GOM stated their desire to role back market reforms and reintroduce collectivized agriculture. USAID devoted as much time and effort to preventing the adoption of regressive laws and regulations as to developing an enabling environment.

The Private Farmer Assistance Project has created a rapidly growing network of Agriculture Producer Associations (similar to Farm Bureau network in USA) that reaches the entire country and represents a membership covering almost 43 percent of all farm lands in Moldova. Remarkable progress has been made in terms of increasing small holder and farmer participation in business associations. Total membership increased by about 20 percent during FY03.

The USAID-funded BIZPRO assistance for small and medium enterprises (SMEs) helped individuals to develop business skills and provided information regarding business development techniques. This assistance continues to build the capacity of business service providers and improve access to financing. BIZPRO is providing direct TA to banks by introducing SME friendly banking techniques that are new for the Moldovan financial market but popular and largely used in developed countries. BIZPRO is also helping NGOs to work directly with people in villages to open SMEs. The NGOs are helping new entrepreneurs to develop business plans, register their companies and negotiate for bank loans.

The Local Government Reform Project (LGRP) aims to introduce community strategic planning, improve services and financial management by increasing the amount and control of revenues, and increase transparency and citizen participation. The project has touched more than 50 local communities since its beginning and almost 40 cities currently have substantial degree of participation with LGRP. All partner communities have developed highly participatory community strategic plans and have received basic financial management training, office automation and intensive technical assistance. The 2003 election results showed that 85 percent of mayors from USAID-assisted communities were re-elected. The citizenry are beginning to recognize and reward the initiative of enlightened, democratic reform oriented mayoral administrations. Mayor's associations are now beginning to provide useful services to their members, including strategic planning workshops for member communities. The USAID Rule of Law Project contributed significantly to providing citizens the information of their legal rights and responsibilities; offering them with free legal consultations and representation; and increasing the capacity of the legal system to respond more effectively through improving the knowledge of judges, lawyers, and other legal professionals.

The Community and Humanitarian Assistance Program (CHAP) provided humanitarian assistance (HA) to 26 families and 126 organizations. HA was also made available to children from large and/or low-income families, orphans, veterans and the elderly. The combined assistance to these organizations served a total targeted population of 62,221 representing vulnerable people throughout Moldova.

The USAID Tuberculosis Prison Hospital Activity (TPHA) has created a Specialized Tuberculosis (TB)

Hospital. TPHA has provided necessary equipment and furniture to improve the medical care of TB-infected prisoners in Moldova. The significant decrease of the number of TB-infected prisoners is expected. The Health Partnership Program has improved the quality of public health in Moldova through the expansion of community-based primary health care and family medicine training programs.

Gender: USAID activities in Moldova provided equal assistance to both men and women. All USAID activities for Moldova are designed to include assistance for the economic and social empowerment of women. This common theme throughout the portfolio is intended to provide tangible assistance and hope to girls and women who may be misguided into a trafficking situation. Although these efforts to provide more opportunities for women are important, they are not sufficient. Therefore, on-going activities will be supplemented by a new anti-trafficking activity that will be awarded this year.

Trade Capacity Building: The new Agribusiness Development Project (SO2) was designed to include assistance with the expansion of trade and markets for processed produce from Moldova. This activity will be awarded in FY04.

GDA Related Progress: There were no significant GDA projects in Moldova during FY03.

Country Close and Graduation:

Results Framework

117-0110 Increased Transfer of State-Owned Assets to the Private Sector

117-0120 Fiscal and Financial Reforms Support Market-led Growth

SO Level Indicator(s):

GDP growth

1.2.1 Market-supportive legal environment expanded

1.2.2 Capacity for sound fiscal management built

1.2.3 Financial sector reform consolidated

117-0130 Private Enterprise Growth Creates Jobs and Generates Income

117-0131 Private Enterprise Growth Creates Jobs and Generates Income

SO Level Indicator(s):

Population employed by the private sector

Private sector contribution to GDP

1.31.1 Agricultural production and distribution system improved

1.31.2 Role of small and medium enterprise in economy expanded

1.31.3 Targeted strategic industries restructured

117-0140 A More Competitive and Market-Responsive Private Financial Sector

117-0150 Economically Sound/ Environmentally Sustainable Energy System

117-0210 Increased Citizens' Participation in Political/ Economic Decision-Making

117-0230 Local Democratic Institutions More Effective, Responsive and Accountable

SO Level Indicator(s):

Citizens participation in decision-making in target cities

2.3.1 Local government autonomy strengthened

2.3.2 Capacity of civil society organizations to represent and serve citizens increased

2.3.3 Citizens confidence in and respect for the legal system is increased

117-0340 Social Safety Net Reached Vulnerable Groups

SO Level Indicator(s):

Improved system of delivery of targeted social assistance

3.4.1 System of delivery of targeted social assistance is improved

3.4.2 Targeted assistance alleviates immediate suffering

117-0410 Special Initiatives

117-0420 Cross-Cutting Programs