

USAID/Moldova

Annual Report

FY 2005

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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 worsened 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 unjustly benefited well-positioned and well-connected individuals. After the 2001 parliamentary election, conditions gradually started to improve. At that time, members of the Communist Party of Moldova (CPM) were elected to office in what most observers considered to be a reasonably free and fair process. The election of the CPM was result of the perception of a majority of the population that 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) has demonstrated in many instances the same negative qualities as the previous regime.

Nearly 50 percent of Moldovan Gross Domestic Product (GDP), 40 percent of employment, and 65 percent of exports are related to agriculture (agribusiness included). More than half the country's population lives in rural areas and makes its living from agricultural activities. According to the European Bank for Reconstruction and Development (EBRD), GDP per capita is \$448. According to a 2002 household survey, more than 40 percent of Moldovans live in absolute poverty. More than 70 percent of the poor live in rural areas, while only 8 percent live in large cities. According to the Moldovan Security Service, between 600,000 and 1,000,000 Moldovan citizens (approximately 25 percent of the population) work abroad, most of them illegally. In some villages, half the population has migrated. Some of those who seek employment abroad do succeed in finding it. 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 go abroad in search of work. Although no official statistics exist, IOM estimates that the majority of women trafficked come from rural areas. Most of them are between 15 and 30 years old; more than 10 percent are under the age of 18; and some are as young as 12.

Although the GOM has not denounced the pro-democratic, economic and social reform initiatives that 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 Communist Party rhetoric, and a number of anti-reform measures taken by the Government of Moldova (GOM). However, for the past two years, the commitment of the GOM to economic and market reforms has been questionable. The International Monetary Fund (IMF) does not have an active program in Moldova. The World Bank (WB) program is proceeding extremely cautiously. Though the GOM continues to issue statements about its commitment to the reform process, its actions often speak otherwise.

In 2004, the Parliament passed a law on production cooperatives to facilitate the return to the old style Soviet collective farms. The GOM also established a requirement that grain transactions be registered with the Universal Commodity Exchange, and set export prices for grains with the apparent intention of hindering grain exports and maintaining artificially low bread prices. Bureaucratic restrictions continue to impede the import of U.S. poultry in an apparent attempt to promote the establishment of state-affiliated poultry operations. On a more positive note, the GOM has established a National Working Group (with private sector participation) to promote regulatory reform in business activity.

Currently, the situation regarding reform in Moldova is highly volatile, heavily influenced by the upcoming

2005 elections (to be held sometime between February and May), and the breakdown in negotiations over a new federal constitution, which would reintegrate the breakaway republic of Transnistria with Moldova. The limited polling conducted in Moldova points to another sure win for the Moldovan Communist Party in the upcoming elections. President Voronin remains the single most popular political personality in 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 the Transnistria region, which has the majority of Moldova's heavy industry.

Other Donors: Donor coordination is maintained through frequent meetings with all bilateral and multilateral donors. Until recently, the U.S. was the only major bilateral donor. However, as our budget levels have declined, the interest of European donors has increased. Sweden is now the largest bilateral donor in Moldova. Germany, the Netherlands, Japan, and Great Britain also have 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 IMF (economic policy), the WB (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.

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 would enhance the trade borders with Romania, which is scheduled to join the European Union in 2007, and would 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.

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 was soured by the GOM harassment of Union Fenosa, a foreign investor in the energy sector. The energy regulatory agency cannot be described as an independent agency inasmuch as it is constantly under pressure from the highest levels of government not to increase tariffs and not to investigate questionable transactions. During FY04, all USAID energy sector activities (with the exception of a couple of minor activities managed out of USAID/Washington) were phased out. This early phase-out from the energy sector sent a strong message to the GOM with regard to its lack of commitment to the reform process.

The CPM is trying to reassert 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 intimidated key political opposition members with a series of investigations and arrests on questionable charges, reversed local government reform intended to devolve power from the central authorities; and increased manipulation of the media. The competing interests of the Parliament and the Presidency have resulted in weak governmental institutions.

Key Achievements: USAID helped the Moldova agri-business sector to develop processes that have significantly increased sales and value of farm produce. There has been a significant increase in growth in this sector in most years since the completion of the land privatization effort (with the exception of 2003 when there was a severe drought).

The Private Farmer Assistance Project has created a rapidly growing network of Agriculture Producer

Associations (similar to Farm Bureau network in USA), which reach the entire country and represent a membership covering about 50 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 100 percent during FY04.

The USAID-funded BIZPRO assistance for small and medium enterprises (SMEs) helped individuals to develop business skills and provided information regarding business development techniques. The program also assessed the impact of state policies, requirements, and institutional arrangements on small businesses. The results are being used by a National Working Group to establish a framework for regulatory reform that encompasses all state agencies.

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 is beginning to recognize and reward the initiative of enlightened, democratic reform oriented mayoral administrations. Mayors 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 information on their legal rights and responsibilities; offering them free legal consultations and representation; and increasing the capacity of the legal system to respond more effectively by educating judges, lawyers, and other legal professionals.

The Strengthening Democratic Political Activism Program being implemented by both NDI and IRI facilitated the organization of a coalition of centrist parties in Moldova. It also assisted the ruling Communist Party in bringing its organizational structure more in line with the principles of social democracy.

The Community and Humanitarian Assistance Program (CHAP) phased out its program of humanitarian assistance after having prepared a number of local organizations to provide such assistance to children from large and/or low-income families, orphans, veterans and the elderly.

During the first year of the Strengthening Tuberculosis Control in Moldova Project, renovation of a national reference laboratory and two regional reference laboratories was begun. Training for laboratory specialists was completed. These activities will facilitate access to further funding from the Global Health Fund for critical tuberculosis activities in Moldova, including a program for multi-drug resistant patients.

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 are supplemented by a new anti-trafficking initiative that was awarded in FY04.

GDA Related Progress: There were no significant GDA projects in Moldova during FY04.

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

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):

Treatment success rate in new TB cases

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