

Strategic and Special Objective Close Out Report

for the Moldova Strategic Plan

1997- 2001

Prepared November 2001

Strategic and Special Objective Close Out Report for the Moldova Strategic Plan for 1997- 2001

The 1997-2001 (previous) Moldova strategic plan was approved approximately May 1997 and expired March 2001, when the 2001 – 2005 (new) strategic plan was approved. There were six strategic objectives (SOs), one special initiative (objective) and one cross-cutting objective in the previous strategy. The previous SOs and related Intermediate Results are listed as follows:

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

- IR 1.1.1 Enterprises privatized through mechanisms other than National Patrimony Boards (NPB's).
- IR 1.1.2 Housing units are privately owned
- IR 1.1.3 Farm land is privatized and titles issued

SO 1.2. Increased soundness of fiscal policies and fiscal management Practices

- 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

SO 1.3. Accelerated development and growth of private enterprises

- IR 1.3.1 Wide availability and flow of business-related information and services
- IR 1.3.2 Legal, regulatory and political environment conducive to sustainable enterprise growth
- IR 1.3.3 Selected agricultural joint ventures created
- IR 1.3.4 Venture capital investment supplied

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

- IR 1.4.1 Market-oriented private banking sector developed
- IR 1.4.2 Government macro and structural adjustment policies support market reform
- IR 1.4.3 Transparent and open securities system established

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

- IR 1.5.1 Fully functional National Electricity Regulatory Commission (NERC)
- IR 1.5.2 More profitable electrical energy system
- IR 1.5.3 Increased profitability of Moldova Gas
- IR 1.5.4 Supportive policy environment

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

IR 2.1.1 Increased confidence in the political and legal processes

IR 2.1.2 More unbiased information available to citizens

Special Initiatives: Humanitarian Assistance, Eurasia Foundation, Medical Partnerships, and Women's Reproductive Health Initiative

A listing of the annexes included with this close-out report and the information contained in them is as follows:

Annex I: The total cost of each SO by USAID funding account, actual or estimated counterpart contributions, and the best available estimate of other partner resources that contributed to results achievement.

Annex II: The principal implementing partners (including those with whom USAID obligated or sub-obligated funds and those who may have received funding from other sources).

Annex III: A summary of the performance indicators used and an assessment of their relative usefulness for performance management and reporting.

Annex IV: A list of evaluations and special studies conducted during the life of the SO, including R4 and Semestral Activity Reports (SARs).

Annex V: A list of instrument close out reports prepared per ADS 202.3.8 for contracts, grants, and cooperative agreements.

Annex VI: The names and contact point of individuals who were directly involved in various phases of the SO (planning, achieving, assessing and learning), and who would be good sources for additional information.

Annex VII: A detailed matrix including activity name, contractor, CTO, award number, and contact information for all strategy activities.

Annex VIII: Provides a cross-reference of continuing activities from the 1997 – 2001 strategic plan to the 2001 – 2005 strategic plan

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

IR 1.1.1 Enterprises privatized through mechanisms other than National Patrimony Boards (NPB's).

IR 1.1.2 Housing units are privately owned

IR 1.1.3 Farm land is privatized and titles issued

What is the overall impact at the SO and IR levels in relation to what was originally planned?

Sustained political will and a concentration of resources and priorities have led the Government of Moldova (GOM) to take a leadership position in its efforts to de-collectivize the agricultural economy, distribute land and property to its rightful owners, obtain the support of the Parliament to reduce fiat land prices by 80 percent and simplify existing titling and land registration systems. The cost of land titles has been dramatically reduced from \$40.00 to \$8.00 per land share. However, the agricultural sector, although increasingly privatized, remained largely un-restructured and under-productive.

The Government of Moldova's National Land Privatization Program (NLPP) was launched in March 1998. Moldova made significant strides in land privatization and was noted as a model for its break-up of state and collective farms and the issuance of constitutionally-valid tradable land titles. Performance in 1999 exceeded expectations. From an estimated 1,000 state and collective farms, a total of 660 farms were broken up in 1999 versus 400 planned. Concurrently, 1.2 million land titles have been issued thereby reaching the 1999 indicator target. A new dimension was added to the NLPP in 1998 and 1999 when, following extensive discussions with the GOM and other international donors, the program assumed responsibility for restructuring the collective farm debt and an indicator unit of measure to reflect this activity has been added. Through the end of December 2000, 836 farms were liquidated and their records removed from the state commercial registry and 931 farms completed the land and property privatization. Still, farming operations are in great need of agricultural information services, inputs, machinery, credit, and markets.

There were close to 3 million land titles issued to approximately 1 million individuals members of state or collective farms by the end of 2000. Unfortunately, small number of sales to third parties occurred up to now for at least three reasons. First, enterprises initially acquiring their associated land had small parcels, which were difficult to subdivide and resell. High prices for urban enterprise land remained an impediment for large enterprises seeking to privatize associated land. Second, new owners could not sell any part of their land until all installments were paid. And last but not least reason is that, due to very low level of life, the small parcel of land is kept by the owner as the last source of surviving.

The percentage of GDP generated by the private sector exceeded the expectation envisaged for this period. This should be viewed with caution due to numerous

measurement problems associated with the shadow economy. The Strategic Studies and Reform Center, and independent unit supported by the World Bank and UNDP, estimated the contribution of the shadow economy at 40 percent to 60 percent of GDP while the State Department of Statistics estimates this contribution at about 15 percent.

Medium and large enterprises originally sold for NPBs effectively privatized. The total number of medium and large enterprises included in the 1993/96 Mass Privatization Program was 1,142. Of these, only 62 were privatized by 100 percent. The cumulative total of enterprises effectively privatized in 1997 was 568.

Coupled with IMF and World Bank conditionally, USAID's privatization program extended to the energy sector, telecommunications, some of Moldova's larger wineries, and selected grain facilities.

In the area of urban land privatization, work continued at a fast pace. In 1998, 555 private enterprises acquired their associated land. In 1999, the trend to privatize enterprise land continued as 771 enterprises purchased their land from the state. More than 1,000 secondary land sales took place in 1999 with the majority being agricultural land parcels and residential parcels.

Work continued during the year to privatize medium and large enterprises. By way of background during the 1993-94 and 1995-96 privatization programs, the privatization of state enterprises was accomplished through use of national patrimony bonds (NPBs) freely distributed to the citizens of Moldova. In the latter program, some privatizations required a combination of cash and NPBs. At the conclusion of the NPB programs, the GOM proposed new mechanisms for cash privatization, including the sale of residual shares and reserved shares through the Moldova Stock Exchange (MSE). In early 1998 a new regulation provided for sale of reserved shares through investment tender. To date, and since the start-up of this activity in May 1997, a total of 450 medium and large enterprises (with 174 during 1999) have been privatized for cash and now are 100 percent privately owned.

SO 1.1 sought to transfer state assets to the private sector to ensure a fair and more efficient democratic market economy. Since the inception of USAID technical assistance in late 1993, resources were targeted towards the privatization of the Government of Moldova's (GOM) state assets. In the initial phase, efforts were focused on the Mass Privatization Program (MPP) aimed at privatizing large numbers of small, medium, and large enterprises in Moldova. A second phase, dedicated to privatization of urban and agricultural land, began in late 1995. Activities under this SO ended in 2000 with the majority of resources targeted towards completing the Moldovan National Land Privatization Program and assisting the GOM with the privatization of strategic enterprises. Key issues and questions focused on continued support to the thousands of emerging private farmers as well as continued development of the legal and procedural bases for mortgage lending utilizing land as collateral will be addressed under SO 1.3 and post privatization.

Assistance with the privatization of the telecommunications sector, related to its regulatory reform has continued in the new strategy under SO 2 (E&E Bureau SO 1.3), “Private Enterprise Growth Creates Jobs and Generates Income”.

What are the significant changes in the Results Framework during the life of the SO? In 1998, the tracking of IR 1.1.2: “Housing units are privately owned” was discontinued. Although USAID did not provide direct assistance in this area, the privatization process created preconditions for active participation of the population in the privatization of housing units -- initially for NPBs, and in 1997 and future years through cash only. Since USAID was not providing direct assistance for this IR 1.1.2, it was omitted from future R4s starting in 1999.

2000 – The activities in this SO were brought to closure and follow-on support to the privatized companies are continued under SO 1.3.

What are the prospects for long-term sustainability of impact and principal threats to sustainability?

Long term sustainability of former nationally owned assets that have been privatized remains conditional on the strengthening of the Moldovan economy in general. The standard of living, financial security and income for the majority of Moldovans continue to deteriorate. This has resulted in a return of Communist leaders to the Presidency and Parliament by popular election. Long term sustainability of privatized companies and the prosperity of newly established companies will depend much on the direction taken by the government and demonstrated economic improvement of Moldovan citizens, based upon the success or failure of this nascent private sector.

What are the lessons learned for application to other SOs, including the follow-on SOs in the new strategies for Moldova, Belarus, and Ukraine?

Significant USAID resources were necessary to affect the privatization of the Moldovan enterprises, housing stock, and farm land. However, private ownership of these various assets have not provided the economic well-being and created stable growth that was envisioned. Another lesson learned is that privatization must be accomplished on the property evaluated according internationally recognized standards. Almost all Central European countries did this and it should not be ignored in this region as well. Also in this part of the world where the market economy relationship have been destroyed and private ownership was not developed during a long period of time, it is very important to bring with privatization effort the private ownership spirit that in a lot of cases is absent after privatization at the moment. Additional assistance must be provided at the local level, through small towns and cities, to teach individuals how to make productive use of the assets now in their possession. Until people understand how to make an income or improve their own well-being with what they now own, Moldova will continue to stagnate economically and may lose interest in the reform initiatives that were accomplished by this SO.

SO 1.2. Increased soundness of fiscal policies and fiscal management Practices

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

What is the overall impact at the SO and IR levels in relation to what was originally planned?

1998 - Fiscal and accounting reforms, most notably involving taxation, have been developed by the GOM and passed by parliament, but implementation is proving to be a lengthy process requiring extensive training for Ministry of Finance and tax administration personnel.

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2000 - USAID's fiscal reform program was key to the success of Moldova's transition to a market-based economy. The IMF released \$32 million in August 1999 due to improvements in fiscal policy and budgetary management practices. The new Budget Process Law was implemented in 1998. The Law on Local Government Public Finance was adopted in 1999. The unified tax code now covers personal, corporate, and value-added tax. An increase of about 25 percent in budget revenues was achieved for 1999.

2001 - USAID's fiscal reform program has been key to the success of Moldova's transition to a market-based economy. The new Budget Process Law was implemented in 1998. The Law on Local Government Public Finance was adopted in 1999. The unified tax code now covers personal, corporate, and value-added tax. An increase of about 40 percent in budget revenues (20 percent adjusted for inflation) was achieved for 2000.

Overview of SO 1.2 Accomplishments:

In the area of reform of budgeting and financial management practices, the overall impact of project exceeded expectations. As the work was completed in the year 2000, it is unmistakable that much remains. Under the new USAID Moldova five-year Strategic Plan 2001-2005, the Fiscal Reform Project will have to remain the key economic reform project of USAID Chisinau.

During the period under review key laws affecting fiscal management in the nation were modified or significantly changed with the assistance of the project, structural changes were made to improve fiscal management, and the foundation was laid for future related-efforts. The treasury system was established nationally and has now been decentralized to the regional level. In addition, the project has provided critical support to the development of better external debt management practices. The project helped the

Ministry of Finance to automate many aspects of budget preparation and execution and extend to all levels of government. It also assisted the Ministry of Finance in improving its mid-term expenditure management. In addition, the Government adopted a five year plan for implementing performance budgeting in 2001, with all spending units scheduled to be using its format in the 2003 budget. Finally, Moldova has improved the timeliness of its budgetary process and schedule adherence. These achievements have included training of local personnel as needed and laying the foundations for future progress.

The overall impact of U.S. technical assistance was extremely significant, making tax policy and tax administration strong contributors to market growth. Tax policy assistance within the Ministry of Finance helped build sound, coordinated, and stable systems of tax law, e.g. a unified, market-oriented tax code covering VAT, excise, income, land, and property taxes. From these, both business and government could predict the tax impact on the future economic decisions. Tax Administration assistance successfully guided the difficult implementation of modern tax systems in a cultural environment still heavily grounded in the past. USAID's technical assistance built functional organizations, taxpayer outreach, compliance mechanisms, IT infrastructures, and specialty activities such as a Large Taxpayer Unit. The success of these activities is shown in the year/year revenue increases and the weathering of such external shocks as the Russian Financial Crisis in 1998.

Parliament, with the technical assistance of the Fiscal Reform Project, has acted on several major reforms during the past five years. In 1997 the Center for Budget and Fiscal Analysis began operations, providing non-partisan analysis to members of Parliament on fiscal issues. A budget process law was adopted to establish the procedure for preparing and executing the annual budget. Laws on Local Public Finance and Local Public Administration were adopted to enhance the transparency and autonomy of local government fiscal operations. Six titles of the Tax Code have been adopted, one at a time from 1997 through 2001.

The result of all three of these intermediate results and the increased soundness of fiscal policies and fiscal management practices that they reflect was improvement in the economy of the Republic of Moldova. As a result, tax collections increased nearly 40 percent in 2000 compared to the previous year. The improved tax collections and budget preparation and execution permitted the government to reduce its deficit from almost 10% of GDP in 1996 to less than 1.5% in 2000. The sound fiscal management helped bring inflation down to single digits in 2001 and also reduced interest rates. These positive changes helped GDP end its fall and begin to grow modestly.

The Fiscal Reform Project has been deepening and widening its reach. Fiscal policy moved beyond elaboration of tax law to include a Unit for policy analysis, revenue estimation, and is now coordinated with macro-economic trends and measures. The resident advisors support the local staff in developing the capacity needed for the future. The policy approach moved from writing of laws to budget revenue results management. In the area of tax administration, similar significant changes occurred. Measures of performance moved from revenues collected to collections measured against budget plan; from tax laws enacted to development of tax regimes fostering economic growth; and, IT

systems that counted collections to developing ones that promotes voluntary compliance and enforcement activities.

Within the State Tax Service, technical assistance was broadened to cover the Larger Tax Unit (LTU). The project is beginning to offer its expertise to the Customs Department, recognizing that the Republic of Moldova is losing much revenue that could be coming from that department. Budget preparation and implementation support was provided not only to cover the revenue side but also the expenditure side. Within the Ministry of Finance the project has also expanded to include assistance in treasury operations and debt management. In addition to widening the project within the Ministry of Finance, the project is also deepening its reach. The project moved to include responsibility for establishing a center for budget and fiscal analysis in the Parliament. The project is now working with local governments, examining the way they are funded, offering technical advice in a limited number of pilot municipalities and seeking ways to help all local governments gain from the experiences of the pilot projects.

Clearly, the Fiscal Reform Project expanded its focus during this strategic period moving from a focus on tax administration to a focus that shapes better fiscal management and policies.

What are the significant changes in the Results Framework during the life of the SO? In CY 2000, a new indicator for S.O. 1.2 (Increased soundness of fiscal policies and fiscal management practices) was been developed. The name of this new indicator for I.R. 1.2.3 will be Center for Budgetary and Financial Analysis (CBFA) provides timely and professional analysis of fiscal affairs to Parliament.

What are the prospects for long-term sustainability of impact and principal threats to sustainability?

There are excellent prospects for sustaining the progress made as a result of the work of the Fiscal Reform Project, but there are also significant threat to sustainability. Political instability will remain as a risk to carry out reform on a sustainable basis, at least until the general population receives greater benefits from the market-oriented reforms. Moldova is the poorest country in Europe with a GDP that is only one-third of the level before the collapse of the Soviet Union. The reforms advanced by the project have helped the country stabilize its economy by increasing tax collections, reducing the deficit from almost 10% of GDP in 1996 to less than 1.5% in 2000 and 2001 and thus bringing inflation down to single digit levels and permitting GDP to end its fall and then grow modestly.

The organizations supported by the project are making good progress but do not yet have great stature within the country and they remain fragile. There is not a long tradition of professionally managed tax services, finance ministries or parliaments. If there are further external shocks to the economy they feel compelled to abandon reforms. External shocks could include a world-wide recession or a repeat of the Russian fiscal crisis of 1998. If the organizations were left without assistance they may not be able to weather even small shocks.

In February, 2001, a population dissatisfied with its economic status elected a communist government. There is a risk that if the government believes that it is receiving inadequate assistance then hard-liners within the party could reverse the reforms. To date, however, project staff have developed cooperative working relationships with new officials. All indications are that if there are no external shocks and the organizations receive support for the next three years then the reforms can be sustained and the population will begin to recognize that they are benefiting from them.

What are the lessons learned for application to other SOs, including the follow-on SOs in the new strategies for Moldova, Belarus, and Ukraine?

The experience in this area has demonstrated that success in fiscal reform is a necessary precondition to success in achieving other strategic objectives. If the government cannot collect adequate revenues and manage its finances then it will be impossible to promote macro-economic environment conducive to growth of the private sector and private enterprises. Without adequate resources the government cannot provide a higher standard of living to the population and extend a social safety net to vulnerable groups. And if the government is not effective, responsive and accountable, then the population will not support market reform and democratic society as expected.

Over the past five years the assistance of the Fiscal Reform Project has helped the Republic of Moldova to stabilize its macroeconomic situation, but the government still lacks the resources that it needs to establish and maintain the conditions necessary for market-led economic growth. Under the USAID/Moldova five-year strategic plan the Fiscal Reform Project will have to play a critical role.

SO 1.3. Accelerated development and growth of private enterprises

- IR 1.3.1 Wide availability and flow of business-related information and services
- IR 1.3.2 Legal, regulatory and political environment conducive to sustainable enterprise growth
- IR 1.3.3 Selected agricultural joint ventures created
- IR 1.3.4 Venture capital investment supplied

What is the overall impact at the SO and IR levels in relation to what was originally planned?

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

Progress for this SO was measured by the increase in the number of private sector firms operating and generating employment, expressed as a percent change over the previous year. Available data suggest that this SO substantially achieved targets in 1997. According to Moldovan Economic Trends, a EU-TACIS publication based on data from the Chamber of Registration of the Ministry of Justice, the number of firms increased from 106,848 in 1996 to 126,622 in October 1997, representing an increase of more than 18 percent in only nine months. However, even though the number of new firms seemed to be growing very rapidly, it was suspected that many of them were set up for only one transaction. It is for this reason that, in March 1997, the GOM ordered the re-registration of all business enterprises to determine how many were truly operational. Based on this re-registration process previous data was revised downward.

The GOM undertook efforts to improve prospects for small and medium enterprises (SMEs). USAID provided assistance in policy advisory services and support to business association development. A baseline survey of SMEs was conducted between November 1999 and January 2000. This survey revealed that 41.5% (81,192 of 195,529 SMEs surveyed) had annual sales of roughly \$476 USD. The share of female dominated firms in villages and small towns (typically the smallest businesses) is 48.3%. Female dominated enterprises are most common in the spheres of hotels and restaurants, wholesale and retail sales, and agriculture and forestry. The most significant problems identified by SMEs were low purchasing power of their customers, low market demand, or low market prices (assume slim profit margins). Inflation was also noted as a big concern. Beginning CY 2000, 72.7% of SMEs were newly created while 20.4% were formerly part of larger, state-owned enterprises that were created through privatization. Only 2.8% of all firms export goods or services.

In 1998, the flow of business-related information was growing, indicating real growth in the business information market. Circulation of the Economic Review/Logo Press grew 7.4 percent in 1997 compared to the five percent target. It is one of the three profitable periodicals in Moldova, and unlike others, contains about 60 percent paid advertising. Paid subscriptions accounted for about half the circulation and 40 percent of it was outside of Chisinau. There was a growing market of people willing to pay for business information.

The Chamber of Commerce showed tremendous growth in business consulting during 1996 (from 45 to 74) and only one more company in 1997, for a total of 75. The six consulting firms assisted by USAID did \$155,000 of business compared to the \$85,000 target. The firms have been operating without USAID support on a for-profit basis since August 1997 and two of the local consultants involved started new companies.

The NewBizNet program had a target of 300 participants/clients and 50 paying customers in 1997. The NewBizNet Center became employee-owned in October, and had 314 participant/clients and 145 paying customers by the end of 1997. As of January 1998, monthly revenue was \$9,805 and the Center estimates \$10,000 as the break-even point. The client base supporting the Center were in the following categories: 38 percent agribusiness, 23 percent industrial production, 39 percent trade and other services.

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

Progress for legal, regulatory and political environment conducive to sustainable enterprise growth is measured by the cumulative amount of foreign direct investment (FDI) in Moldova. As of October 1997, FDI reached \$149.1 million, exceeding the 1997 target of \$100 million.

An assessment of the status of commercial law in Moldova concluded that there was a recognized need for commercial law reform, as development of relevant laws was disorganized. Though a number of laws continue to be enacted, a framework for this legislative activity and an understanding of the commercial needs underlying it were lacking. Drafting was been casual, which led to the enactment of poor legislation.

A project to improve the institutional infrastructure for commercial law in Moldova was initiated in January 1998. The initial focus was to build the capacity within relevant portions of the Moldovan government to draft coherent commercial legislation compatible with the promotion of a market economy. An early aspect of this work provided assistance to the Ministry of Justice in its evaluation of the draft civil code, which establishes the basic framework for commercial law. Advances in strengthening the rule of law, though addressed, remain limited by the judicial system's need for training and its lack of information resources.

1999 - Advances in strengthening the rule of law remain limited by the judicial system's need for training and its lack of information resources, as well as insufficient capacity in the judiciary, the parliament, the government and the legal community to draft laws in an effective manner. Continued use of soviet-era Civil Code in Moldova in 1999 seriously impeded its transition to a market-oriented economy. USAID's legal reform project, initiated in 1998, assisted the Ministry of Justice in its evaluation of the draft civil code to establish the basic framework for commercial law.

The creation of commercial law in Moldova is complex because of the subject matter and because of the historical backdrop of socialist law that existed in the former Soviet Union. As a result, Moldovan commercial law currently exists as a confusing patchwork of narrow statutes or more comprehensive but outdated Civil Code provisions, rather than as an overall internally-consistent commercial law system. However, without such a commercial law framework, there is no effective mechanism to set forth in a systematic fashion the underlying rules governing economic activity and provide the certainty and stability needed by both foreign and domestic businesses to engage in commercial transactions. USAID is providing technical assistance to help build capacity of the GoM to draft coherent commercial legislation compatible with market economy.

2000 - The USAID legal reform program provided technical assistance to help establish a legal framework and commercial legislation compatible with market economy. USAID's Commercial Law Project, which was initiated in 1998, presented a draft civil code to parliament for review in February 2000.

USAID's legal reform activity was initiated in 1998 to assist the Ministry of Justice to establish the basic framework for commercial law. In 1999, the USAID-funded commercial law project started drafting a new civil code for Moldova to support coherent commercial legislation compatible with a market economy. The draft civil code in Russian and in Rumanian was finalized for presentation to the Parliament for review and discussion in 2000. Joint work with the Foreign Investment Advisory Service, an agency of the World Bank, resulted in a draft strategic investment code to attract foreign investors and develop commercial activity in Moldova. In parallel, a comprehensive needs assessment which included the Ministry of Justice, the Court system and the Parliament was conducted. An analysis of the draft Law on the Organization and Functioning of the Ministry of Justice was provided at the request of the Minister of Justice. Another analytical report for the creation of Legislative Council Center was prepared for the Parliament. Given the importance of the Economic Courts in Moldova's economic development, USAID's legal reform activity assessed the Courts to determine the most important areas for reform, and how to make the Courts more effective players in the commercial arena. Seminars on the role of policy makers in legislative drafting, as well as on laws and institutions essential to a market economy, were conducted, and a series of reports analyzing a variety of commercial law issues, including collateral law, real estate ownership, intellectual property, private international law, and enforceability of foreign judgment were prepared at the request of local counterparts during the reporting period.

International Accounting Standards (IAS) Adopted:

The IR for adopting international accounting standards monitored progress by tracking three indicators: (1) dues-paying members of the Moldovan Association of Professional Accountants and Auditors; (2) the certification program offered by the association develops professional qualifications of accountants and auditors; and (3) the number of companies listed on the stock market with financial statement conforming to IAS standards as defined by the State Commission on Securities Markets.

Dues-paying members of the Moldovan Association of Professional Accountants and Auditors performing as a self-regulatory organization. The Association of Professional Accountants and Auditors (ACAP) was legally registered in August 1996 and was the first self-regulatory organization (SRO) of its kind established in the FSU. When the ACAP was registered, it numbered only 21 members. An additional 180 members joined by the end of 1996. As of February 1998, ACAP registered 340 paying members.

Number of companies listed on the stock market with financial statement conforming to IAS standards as defined by the State Commission on Securities Markets. As noted in last year's review, no progress on this indicator is expected until 1998 when enterprises issuing financial statements in conformity with IAS will be listed on the Moldova Stock Exchange (MSE). The MSE has three listing tiers with differing disclosure requirements. These disclosure requirements have to do with the level of statutory capital, number of shareholders, level of profits, and the need to issue audited financial statements. It is these disclosure requirements which keep most enterprises from being listed, registered or trading on the exchange due to their concerns about the transparency of their activities, as well as the financial cost of issuing audited financial statements.

USAID assistance also focussed on helping establish an association of accountants for performing as a self-regulatory organization (SRO) to promote the use of international accounting standards. While the 1998 target of 450 dues-paying members was surpassed at 647, this increase and the revised targets were a fraction of the anticipated potential membership of 12,000. In 1998, USAID devoted resources to design a new undergraduate curriculum program to train senior accounting faculty in western accounting, design a public information program to help the general public read Moldovan financial statements and train practitioners and enterprise accountants. This training was designed to help them comply with the January 1998 government mandate requiring financial statements based on the new Moldovan National Accounting Standards. In total, more than 1,000 professors and practitioners have been trained in international accounting standards.

Significant success in the development of professional capacity in accounting and auditing and an accounting curriculum based on western accounting practices was achieved in 1999. A new accounting curriculum was developed and approved by the Academy of Economic Studies of Moldova. Certification examinations for accountants were initiated in December. Five ACAP members passed all parts of the certification examination and became the first certified accountants of Moldova. Also in 1999, membership in ACAP more than doubled to some 1,300, surpassing the planned target of 1,000 members. It is estimated that some 15,000 enterprises have converted to national accounting standards.

In CY 2000, With USAID and World bank support the Government of Moldova (GOM) adopted and implemented 20 national accounting standards (NAS) based on International Accounting Standards (IAS), three of which, along with the International Standards on Audits (ISA). USAID was instrumental in building the institutional and technical

capacity of the Association of Professional Accountants and Auditors of Moldova (ACAP), an accounting and audit self regulated association. ACAP has obtained associate membership in the International Federation of Accountants (IFAC). Certification examinations for accountants were initiated in December 1999. Five ACAP members passed all parts of the certification examination and became the first certified accountants of Moldova. Also in 1999, membership in ACAP more than doubled to some 1,300, surpassing the planned target of 1,000 members. In 2000, the number of ACAP members rose to 1,600. ACAP members have trained over 5,500 accountants from some 3,000 enterprises. All commercial banks and some 20,000 enterprises have converted to IAS-based national accounting standards. A new five-year accounting curriculum for bachelor and master degrees in accounting was developed and approved by the Senate of the Academy of Economic Studies of Moldova (AESM). By the end of 2000, over 7,000 students were enrolled in this curriculum. In September 2000, the University of Nebraska at Omaha (UNO) agreed to a partnership program with AESM for curriculum development, study programs, and exchanges of professors and students.

Corporate Governance:

The IR for corporate governance standards followed was measured by the number of corporations that file annual reports with the State Commission on Securities Markets (SCSM). Data for 1997 show that results obtained exceeded even the 1999 target. It should, however, be noted that despite the intensive efforts to ensure disclosure of information and transparency, the number of corporations filing reports with SCSM remains low relative to the number of companies subject to reporting.

This SO also provided assistance to Moldova in applying for membership with the World Trade Organization (WTO). In December 1995, Moldova requested accession to the WTO, but did not submit the required GOM Memorandum on Foreign Trade Regime, thereby delaying the target of accession from 1998 to 1999. The First Working Party meeting on Moldova's application was held in June 1997, and the Second Working Party is scheduled for March 18, 1998, after which Moldova expects to proceed with bilateral negotiations on accession with member states.

The GOM has taken a number of legislative initiatives to make its trade regime compatible with WTO requirements. Acting on these initiatives, Parliament has already adopted public procurement and customs laws. The 1998 State Budget provided for application of the destination-based principle for VAT collection (except, temporarily, for Russia). In terms of institutional measures, an inter-ministerial commission has been created to coordinate actions for accession and an Embassy has been opened in Geneva.

2001 - As for the capital market, two key pieces of legislation took effect in 1999: the first law provides enforcement authority to the State Commission for Securities Market, and the second law establishes general provisions on professional activity in the securities market. Finally, the USAID legal reform program provided technical assistance to help establish a legal framework and commercial legislation compatible with market economy. USAID's Commercial Law Project, which was initiated in 1998, presented a

draft civil code to Parliament for review in February 2000. USAID supported the GOM in the implementation of an action plan to remove legal and regulatory impediments to private sector development and accelerate growth of the economy.

IR 1.3.3 Selected agricultural joint ventures created:

Two indicators are used to measure performance: (1) the number of new joint ventures created; and (2) the dollar amount of U.S. private investment leveraged by the joint ventures.

The U.S. agribusiness partnership program sought to encourage U.S. business to invest in Moldova. The program provided U.S. companies a maximum of \$500,000 to establish a business, if the U.S. partner matched at least 2.5 times this amount. USAID funds were used primarily for training, consulting, and limited commodity support. Funds were used for equipment and facility improvement. Most of the partnership projects were with local Moldovan companies, either processors or trading companies.

In 1997, IR targets were met when two farm service centers and two processing enterprises were established in addition to one horticultural demonstration plot.

One of the biggest successes in 1997 was the CNFA-promoted investment in the Hincesti Dairy plant by Developed Technologies Resource (DTR), a Minnesota-based partner. The positive impact of the project on local farmers, dairy plant employees and retailers has been greater than anticipated. Once close to bankruptcy, the dairy plant extended operation from 60 hours per month to 55 hours per week, processing up to 25 tons of milk per day. Twenty-five new jobs were created and 150 retailers became actively engaged in Hincesti-related activities.

One farm service center was set up in September 1997. The center offers training and agricultural inputs, as well as technical services to fruit and nut growers through a commodity center in the Soroca community. The joint venture was created between the California-based Food Pro International Inc. and its local partner, Sorexpo SRL. The training provided through the center will help growers acquire Western cultivation techniques, including new crop protection and harvesting methods.

In October 1997, INCON Group, a leading Moldovan producer and exporter of canned food and fruit juices, signed two contracts worth US\$ 1 million to establish a Farm Service Center and a research and demonstration apple orchard near Cupcini Cannery.

In 1997, the total commitment made by U.S. companies was \$ 7.8 million. Incon Group's investment amounted to \$3.310 million for both the Farm Service Center and the Cupcini orchard demonstration plot. USAID contributed \$2.5 million (for a leverage factor of 4:1) to attract \$13 million in new local and foreign investment. Thus, the 1997 target of \$4 million was greatly exceeded

In December 1998, another farm service center specializing in providing agricultural inputs, training and credit to grape growers was established in the south of Moldova. The Kazayak-Vin Joint Venture was set up by Rhone-Poulenc through a contribution of \$1.4 million.

The U.S. Agribusiness Partnership Program concentrated on developing existing farm service centers; creating new centers; and, developing a network of village stores to serve Moldova's private farmers with a private agricultural input distribution system and access to cash markets. Access to cash was facilitated through the creation of savings and credit associations as part of each store. In FY 1999, nine partnerships, including one activity with three village stores, were established with local companies.

During the FY 2000 reporting period, the U.S. Agribusiness Partnership Program concentrated on strengthening existing farm service centers, creating new centers, and developing a network of village stores to serve Moldova's private farmers with a private agricultural input distribution system. Access to cash was facilitated through the creation of a savings and credit association as part of each store, if one did not already exist nearby. These regional service centers and farm stores provide new private farmers, who received their land from the national land program, with needed agriculture inputs along with tractors and other services. The GOM undertook efforts to improve prospects for small and medium enterprises (SMEs); USAID responded with assistance in policy advisory services and support to business association development. An SME baseline survey was conducted to provide more accurate information regarding the sector and to help identify areas of assistance.

In conclusion it may be mentioned that during the program period October 1, 1996 to June 30, 2001 CNFA implemented 13 agribusiness projects in Moldova meeting the planned goal. After discussions between CNFA and US AID it was decided to initiate a program that would more directly impact small private farmers. This resulted in a pilot project to create six village-based farm stores, which was added to the CNFA program in January of 2000. Nine stores were actually developed and fully operational by the end of the program and the initiative was expanded under a follow-on program. US AID funds totaling \$8.8 million leveraged over \$14 million of additional private investment into agribusinesses by the subcontracting companies and farm store partners. While an initial goal of the AP-2 program was to attract direct western business investment, the program proved particularly successful at sourcing local and CIS investment. Western Agribusinesses continued to play important roles, sometimes as investors, but more commonly through distribution arrangements with AP-2 project partners.

IR 1.3.4 Venture capital investment supplied:

During FY 1997, the Western NIS Enterprise Fund invested \$6.25 million in two enterprises in Moldova. During the same year, \$1.115 million was repaid to the Fund by Moldovan Enterprises. The net increase in Moldovan investments was, therefore, \$5.135 million. The funds paid back can be relented at a later time. As of September 30, 1997,

four other potential investments in Moldova totaling \$8.8 million had been visited by the fund and were in the process of further analysis. During most of FY 1997, the position of Chisinau Country Officer was vacant. The arrival of a new Country Manager in December 1997 had a positive effect.

A further impressive performance of its existing portfolio companies continued. The Fund's ultimate goal is to improve the overall investment climate of the country and grow its businesses into leaders of Moldovan economy. In over five years of activity, WNISEF's investments in Moldova totaled \$13.7 million. WNISEF is the largest direct foreign investor among financial institutions, having invested in share capital of Moldovan companies more than EBRD and IFC altogether. Its portfolio includes at present a glass manufacturing company, a beverage producing company, an agriculture distribution center, and the two most recent investments - a micro lending institution and the largest commercial bank of the country. All WNISEF's companies have become leaders in their segments in terms of revenue growth and profitability, representing good examples of the Fund's strategy implementation. The Fund's portfolio companies employ over 2,000 people.

What are the significant changes in the Results Framework during the life of the SO?

There were no significant changes to the Results Framework during the life of this SO. While maintaining a focus on improving input supplies to farmers, significant results were achieved in improving output-marketing opportunities for small-scale farmers in a broad range of further processing enterprises and milk collection stations. Access to credit for villagers also received increased emphasis and showed results as Savings and Credit Associations were formed at many of the milk collection stations, farm stores and farm service center sites. This not only provided an integrated approach to developing the post privatization agricultural sector but also significantly increased the incomes of farmers. Project partners became more than suppliers of inputs and purchasers of raw materials. They also served as rural development centers leveraging their commercial activities by providing space for savings and loan associations, serving as training centers and providing technical assistance to local farmers. The model developed in this program became an important component in the follow-on Private Farmer Commercialization Program.

The activities undertaken in SO 1.3 have evolved and are continuing within the context of the new FY 2001 – FY 2005 Strategy.

What are the prospects for long-term sustainability of impact and principal threats to sustainability?

The 13 new Agribusinesses, 9 operating farm stores, 64 milk receiving stations, and 49 Savings and Credit Associations that resulted from AP-II program and 5 WNISEF portfolio companies have proved themselves to be sustainable businesses and continue to have significant impact. The overall Moldovan business environment remains the most obvious

threat for business sustainability. Businesses need a stable currency, reasonable rate of inflation, fair and transparent taxation system, and political stability to ensure their success. While Moldova has difficulty in many of these areas, progress is being made. It is important to note that thus far all of the US AID supported ventures, including the nine village-farm stores continue to operate after the conclusion of assistance funding.

What are the lessons learned for application to other SOs, including the follow-on SOs in the new strategies for Moldova, Belarus, and Ukraine?

A key lesson gleaned from the results of the Agribusiness partnership program is the need to maintain flexibility and adjust and evolve programs to fit the operating environment. As stated earlier, the initial goal of the AP-2 program was to attract direct foreign investment. Due to Moldova's difficult business climate, few outside agribusiness investors came forward. The CNFA program was able to adjust its tactics, concentrating on partnerships with local enterprises and attracting western partners for business relationships, distribution arrangements and sometimes equity ownership. The strong local commitment has improved the sustainability of these projects.

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

IR 1.4.1 Market-oriented private banking sector developed

IR 1.4.2 Government macro and structural adjustment policies support market reform

IR 1.4.3 Transparent and open securities system established

What is the overall impact at the SO and IR levels in relation to what was originally planned?

1998 - Training in use of the newly adopted International Accounting Standards has progressed slowly.

1999 - USAID assistance to the financial sector in 1998 aimed at promoting an efficient private banking sector together with a transparent and open securities system. Training in use of the newly adopted International Accounting Standards has progressed slowly, but increased dramatically in 1998 under the Moldova Accounting Reform Project.

2000 - USAID provided assistance to the financial sector by promoting an efficient private banking sector together with a transparent and open securities system. The banking sector in Moldova was strengthened by the National Bank's steps to get rid of non-performing commercial banks and to develop strong banking laws. By 1999, the commercial banks and most of Moldova's 20,000 enterprises had successfully converted to International Accounting Standards (IAS). As for the capital market, two key pieces of legislation took effect in 1999: the first law provides enforcement authority to the State Commission for Securities Market, and the second law establishes general provisions on professional activity in the securities market.

2001 - USAID also provided technical assistance to the financial sector to promote an efficient private banking sector together with a transparent and open securities system. The banking sector in Moldova has been strengthened by the National Bank's steps to get rid of non-performing commercial banks and to develop strong banking laws. The commercial banks and most of Moldova's 20,000 enterprises have successfully converted to International Accounting Standards (IAS).

What are the significant changes in the Results Framework during the life of the SO?

There were no significant changes to the Results Framework during the life of this SO.

What are the prospects for long-term sustainability of impact and principal threats to sustainability?

During the early years of financial reform Moldova had poor experience with maintaining political stability, even under a reform minded-government; however, USAID had achieved better than expected results due to the government's cooperation. Recent elections have put a large majority of Communists into Parliament, however, it is too

soon to determine whether cooperation will deteriorate. The elections has one beneficial quality. It demonstrated that the country has gained a small level of political stability. If the shift back to a communist government does not fully reverse the market-reform trend, there is some hope for long-term increased sustainability.

What are the lessons learned for application to other SOs, including the follow-on SOs in the new strategies for Moldova, Belarus, and Ukraine?

Under more that five years of banking reform we have talked about private sector development. However, in fact, most of the technical assistance provided was given to strengthen the National Bank of Moldova with very little going to strengthen the commercial banks making up the private sector. This emphasis on support of the National Bank was needed to introduce International Accounting Standards, audit procedures and other internationally recognized reform measures. But the heavy emphasis on the public sector may have been taken at the expense of the private sector.

Clearly the commercial banks have been neglected during these early years of reform. It is too early to say whether the commercial banks have enough resources to face a powerful National Bank which has the ability of control with the imposition of their rules and regulations. The private commercial banks also need to be strengthened to be able to face the competition from foreign banks.

The lesson may be in situations similar to this one that, while there is a critical need to undertake significant reforms of the public sector (the controlling body), technical assistance also must be provided to the private sector in parallel.

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

IR 1.5.1 Fully functional National Electricity Regulatory Commission (NERC)

IR 1.5.2 More profitable electrical energy system

IR 1.5.3 Increased profitability of Moldova Gas

IR 1.5.4 Supportive policy environment

What is the overall impact at the SO and IR levels in relation to what was originally planned?

1998 - Energy remains the overriding problem of this economy which suffers from a lack of resources and dependence on fuel imports from Russia, continuing inefficient use of energy supplies and a deficit of market mechanisms to establish viable prices. Privatization of the energy sector is now being addressed, but the process will not be easy or automatic.

In May 1997, the Parliament lowered the normative price of land associated with privatized enterprises. A new Law on the Normative Price and Procedures on the Sale and Purchase of Land became effective in October 1997. Despite evident benefits from the passage of these two laws, many imperfections and constraints still exist to the establishment of a land market.

1999 - Energy remains the overriding problem of the economy which suffers from a lack of resources and dependence on fuel imports from Russia, continuing inefficient use of energy supplies and a deficit of market mechanisms to establish viable prices. Privatization of the energy sector is now being addressed, but the process will not be easy or automatic.

2000 - USAID technical assistance helped the GOM establish the Independent National Agency for Energy Regulation and pass the law to privatize the power sector. With USAID assistance, Moldova began privatizing five electric distribution companies and three power generation companies.

What are the significant changes in the Results Framework during the life of the SO?

USAID assistance in the Moldova energy sector has supported the establishment of an improved regulatory and legal environment, and has contributed to the attraction of significant private investments in the power distribution system of the country. This latter development, the acquisition by a Spanish power-sector operator with significant resources and operational experience, is by far the most significant in terms of supporting sector stability and sustainability.

What are the prospects for long-term sustainability of impact and principal threats to sustainability?

The foregoing aside, the Moldova energy sector remains fragile. The capacity of the National Agency for the Regulation of Energy (ANRE) to perform its mandated duties is still developing. Moreover, the newly formed Ministry of Energy is struggling to develop both its mission and function (which at present are poorly defined), and therewith to determine what internal professional capacities it requires. It is clear that there exists a pronounced dearth of professionals for the drafting of policy and legislation for the energy sector. The failure to see the development of a competent, independent regulatory body and the establishment of an appropriate mission and professional capacity for other state bodies would represent a serious risk to the sustainability of the energy sector, and hence the impact of USAID technical assistance to date. Likewise, the failure to complete the reforms within the electric power sector, including the privatization of remaining state-held assets, will also contribute to a deterioration of sector sustainability. Supply stability and diversification, as well as attraction of investments in other energy-sector infrastructure is also sorely needed for the sake of sector sustainability.

What are the lessons learned for application to other SOs, including the follow-on SOs in the new strategies for Moldova, Belarus, and Ukraine?

The original Strategic Objective's IRs did not adequately, in my view, elucidate the intricacies of the issue. A better framework that includes a definition of the end-state hoped to be achieved in greater detail at the macro *and* micro levels would be appropriate, and should be expounded through discussion of the policy goals and policy tools that should be supported and employed to achieve the desired end-states.

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

IR 2.1.1 Increased confidence in the political and legal processes

IR 2.1.2 More unbiased information available to citizens

What is the overall impact at the SO and IR levels in relation to what was originally planned?

1998 - Democratic reforms promoted free and fair elections in 1996 for the presidency and those upcoming in March 1998 for parliamentarians, an increasingly independent judiciary, and an expanding civil society including a budding NGO sector with a growing capacity to express itself on policy matters. A larger number of newspapers, TV and radio stations have increased their distribution and areas of news coverage, but have much to learn about independence and analytical methods. Independent media companies, which should become an important source of objective news, are struggling to survive and adapt to market conditions.

1999 - Moldova's transition toward democratic governance has also been characterized by demonstrable progress. Democratic reforms promoted free and fair elections in 1996 for the presidency and in March 1998 for parliamentarians, an increasingly independent judiciary, and an expanding civil society, including a budding NGO sector with a growing capacity to express itself on policy matters. The country has a free press in its earliest stage. A larger number of newspapers, TV and radio stations have increased their distribution and areas of news coverage, but have much to learn about independence and analytical methods. Independent media companies, which should become an important source of objective news, are struggling to survive and adapt to market conditions.

2000 - In the areas of elections and civic education, USAID provided experts in the revision and passage of electoral laws and procedures, and promoted development of institutions at the core of democratic society such as the Parliament, Constitutional Court, Central Election Committee, mass media and NGOs. During the 1998 electoral campaign, USAID assistance helped administer the election, disseminate information and materials about democracy, and conduct an impact evaluation on the election process. In 1998, the Parliament passed the Law on Administrative and Territorial Organization and the Law on Local Public Administration that promote local government autonomy through the transfer of power and responsibility to local government authorities.

2001 - Market reforms require support in national political institutions, at the local government level, as well as from citizens and community-based organizations. In the areas of elections and civic education, USAID has provided experts in the revision and passage of electoral laws and procedures, and promoted development of institutions at the core of democratic society such as the Parliament, Constitutional Court, Central Election Committee, mass media and NGOs. During the 1998 and 2001 parliamentary campaigns, USAID technical assistance helped administer the election, disseminate information and

materials about democracy, and conduct evaluations on the election process. In 1998, the Parliament passed the Law on Administrative and Territorial Organization and the Law on Local Public Administration that promote local government autonomy through the transfer of power and responsibility to local government authorities. USAID's Local Government Reform Project which began in 2000 will promote fiscal autonomy, administrative efficiency, and democratic governance at the local government level.

What are the significant changes in the Results Framework during the life of the SO?

1999 - The mission proposed changing its one democracy strategic objective from citizen participation to local government because the situation in Moldova called for broader participation of citizens in local government. Newly passed laws have reorganized the local government structure in Moldova and have changed intergovernmental financial relationships. Unfortunately, there is no plan to implement these new laws, and there is little capacity at the local government level to operate independently. USAID needed to redirect the strategy to assist in the development of new practices, procedures and relationships at the local level, involving mayors, local councils, and citizens.

2000 - The transition from S.O. 2.1 (Increased, better-informed citizen participation) to S.O. 2.3 (More effective, responsible and accountable local government) was proposed based upon the previous year R4 recommendations. However, the E&E Bureau and USAID/WNIS determined that based upon administrative, funding, and time constraints, it was more appropriate to continue reporting on results for SO 2.1 through the remaining period of this strategy.

What are the prospects for long-term sustainability of impact and principal threats to sustainability?

The communist government currently in place in Moldova might come back to the "rayon" system and reinforce the tendency toward centralization. Since the election of a communist government early in 2001 there has been considerable talk about centralization but no decision has been taken as of this moment. However, a local government reform project can have a positive affect toward increasing participation of the people towards fostering a democratic society and a market economy.

What are the lessons learned for application to other SOs, including the follow-on SOs in the new strategies for Moldova, Belarus, and Ukraine?

USAID should not stop fostering economic reform just because a country is under a communist system. There are always areas where cooperation is possible. Promoting local government fiscal authority, municipal development and participation of the people in a democratic process possibly can move a communist government toward a more acceptable social democratic system, as Moldova seems to be doing at this time.

Special Initiatives: Humanitarian Assistance, Eurasia Foundation, Medical Partnerships, and Women's Reproductive Health Initiative

What is the overall impact at the SO and IR levels in relation to what was originally planned?

2000 and 2001 - Grants awarded by USAID for humanitarian purposes have facilitated the transition to a market economy and complemented USAID development projects in economic and political reform.

All USAID projects have a social dimension. The privatization program targeted mass privatization and land reform before expanding to privatization of strategic industries. Fiscal reforms have focused on increasing revenue collection to help the GOM meet civil servant salaries, pay pensions, and increase expenditures for health and education. The Winter Heat Program in 1999 and 2000 contributed significantly to alleviating the hardships of vulnerable groups during energy sector restructuring by supplying coal to vulnerable groups.

Eurasia Foundation has been active in Moldova since 1994, when it started a \$45,069 grantmaking program that over the past few years developed and increased in both amount and quality to reach its peak of \$585,412 in FY98. The Foundation's mandate is to make small grants on an on-going basis which aim to facilitate the transition from centrally planned to market economy, encourage improvement of public service delivery and greater citizen involvement in civic decision-making; and improve the flow of information available to NIS citizens. An underlying theme of many Foundation-sponsored programs is improving management in NIS organizations, be they in private, public or non-profit sectors. Eurasia concentrated its program activities in eight priority areas, complimenting other USAID development projects in economic and political reform: business development, business education and management training, economics education and research, public administration and local government reform, NGO development, rule of law, media, and electronic communications.

In FY 2000 Eurasia Foundation Western NIS Regional Office made no new grants pending an IG investigation. The foundation's program and grant management staff focused their efforts entirely on three key tasks: phasing out the active Foundation grant portfolio in Moldova, reviewing programmatic and grant management procedures and their implementation in Moldova, and initiating administrative, conceptual and procedural planning for a revised grant-making program that will adapt best practices developed over the previous six years of Foundation operations to the situation on the ground and local needs. Over FY2000, the Eurasia Foundation closed a total of 65 projects in Moldova, totaling \$627,967. A number of the phased-out grants were projects that had been completed some time ago and which required a grants management compliance review prior to formal closure. Other grants naturally expired over the course of the fiscal year, that is, project activities were completed, grantee final reporting compliance was satisfactorily addressed, and grants were formally closed.

Medical Partnership

The Hospital Partnership Program creates professional linkages between Moldovan health care providers and their U.S. counterparts. The program addresses health care issues by improving the effectiveness of health care delivery.

The partnership program, funded by USAID through the American International Health Alliance (AIHA) started in 1993. Over the next six years the Hennepin County Medical Center in Minneapolis, Minnesota, has worked closely with the Moldovan Ministry of Health, the Chisinau City Emergency Hospital to advance contemporary surgical procedures, introduce and restructure curricula for nursing and emergency medicine, expand infection control techniques, and reform women's health issues. One of its most significant outcomes was the opening, in summer of 1997, of the Women's Health Center in Chisinau. The Center fills the existing gaps in medical services provided to women in Moldova's capital city, combining information and educational work with counseling and medical care. Medical services provided by the Center focus on modern methods of contraception and family planning, STDs diagnosis and treatment, gynecological illnesses, hormone-substitution therapy at pre- and menopause, diagnosis and treatment of extragenital diseases, support services for women of all ages.

In 1999, AIHA formed a new partnership between Norfolk/Portsmouth, Virginia, and the Botanica Medical District in Chisinau to implement a model family-centered primary health care service delivery site. The partnership focuses on the development of quality services to meet community needs and improve access to services with an emphasis on disease prevention and health promotion for adults and children. The establishment of an effective primary health care system in Moldova is a major component of the Moldovan national health care policy, adopted by the Government for the years 2001-2005.

A cadre of medical specialists and representatives of local public administration from Moldova studied the organizational structure, family medicine teaching principles and curricula, and day-to-day activities of the East Virginia Medical University. Renovations of the Botanica Family Medicine Center commenced in September 2000. The Mayoralty of Chisinau committed additional financial resources to the renovation of the Center to include provision of hot water, heat, and air conditioning for the facility. While some equipment and consumables are available for the Center's examination rooms, additional equipment and consumables will be provided by Carelift International. The official inauguration and a regional practical scientific conference on community primary medical services are scheduled to take place in May 2001. Once the Center becomes fully operational, it will provide medical services to about 20,000 people a year.

Humanitarian Assistance

In FY2000, CHAP/Moldova continued to carry out its mission of reducing human suffering and negative consequences of crises caused by the difficult economic and democratic transition in Moldova. CHAP provided significant impact in alleviating the hardships of the needy and strengthening the capabilities of social service organizations to meet critical humanitarian and related developmental needs. Over the last year,

CHAP/Moldova conducted eight (8) deliveries valued at over \$12 million, which consisted of nearly 126 tons of cargo. The assistance was provided to 554 social service providers, including 524 small private farms, 13 governmental medical institutions, 10 boarding houses/schools, and other social service providers, with sectoral expertise in medicine, disaster victim assistance, education, children, the disabled, veterans, and the elderly. These organizations provide tangible assistance to nearly 300,000 constituents.

During the transition to a free market economy, the government of Moldova is facing difficult problems related to very limited financial and material resources. As a result, funding for social service programs has been considerably reduced and many vulnerable members of society have been suffering. In this situation it threatens and discourages people from supporting economic reforms in Moldova. It also tends to increase the cynicism of citizens and decrease politicians' willingness to take the strong measures necessary for economic progress. During this difficult period USAID/CHAP continues to help vulnerable population groups in Moldova.

Since the inception of the program in 1994, USAID/CHAP has conducted 87 shipments, which have consisted of over 1,790 tons of humanitarian aid, the equivalent of 189 containers, valued at over \$40 million to Moldova. During this period USAID/CHAP has distributed assistance to 152 medical institutions, 115 educational organizations, and 564 non-governmental organizations in all districts throughout the territory of Moldova. This assistance has given about 6,173,000 people hope and helped them survive and continue pursuing the course of reforms to a democratic society and free-market economic system.

Major program achievements in 2000:

- The airlift of approximately \$9 million worth of medicines and supplies is considered one of the largest single United States humanitarian assistance projects for Moldova since its independence. This project distributed medical equipment and supplies to over 150 hospitals and clinics throughout Moldova. The initiative was undertaken in close collaboration with USAID, the U.S. Department of State, the Government of Moldova, including the Cabinet of Ministers Commission for Humanitarian Assistance, and the Ministry of Health. Counterpart International was assisted in this effort by other private voluntary organizations, namely Heart to Heart, City Hope International, and Carelift International. These organizations were responsible for obtaining the medicines from various U.S. pharmaceutical companies.
- CHAP's humanitarian assistance rendered to Moldovan private farmers serves as a catalyst for their growth and development. The project bolsters the National Farmers' Federation's organizational capabilities for helping vulnerable private farmers to expand the range of their activities by growing corn, wheat, onions, and a variety of vegetables. Agriculture is the key sector of the Moldovan national economy. Therefore, farmers play a very important role there. The products they grow make up the greatest part of the country's exports. CHAP/USAID-provided commodities prove to be crucial in increasing the farms' viability and productivity.

What are the significant changes in the Results Framework during the life of the SO?

Under the 1997-2000 Strategic Plan the Humanitarian Assistance, Eurasia Foundation, Medical partnerships and Women's Reproductive health Initiative activities were not part of the Results Framework. As a result, no intermediate results and indicators were developed.

What are the prospects for long-term sustainability of impact and principal threats to sustainability?

The USAID HA program was subject to an independent assessment in 2001 that recommended continuation of USG-funded activities to provide humanitarian assistance. HA in Moldova is amply justified by the acute needs of large numbers of needy families and individuals living on the far margins of productive society. At the same time Counterpart, in preparation to a new CA, was explicitly required that an exit plan be developed as a separate component of the activity. The rationale for that recommendation was that the indigenization of management of a program of this nature is not only possible, but also desirable.

Eurasia program in Moldova was inactive for about two years, which in fact posed significant problems in furthering the development of Moldovan NGOs to enable their progress towards sustainability.

Partnerships and Women's Reproductive Health Initiative will need continuation of USG-funded assistance to enhance the institutional capacity of Moldovan partners.

What are the lessons learned for application to other SOs, including the follow-on SOs in the new strategies for Moldova, Belarus, and Ukraine?

On HA, lessons learned included the need to sharpen the focus of humanitarian interventions to ensure enhanced impact in this sector. It was found that CHAP is an initiative that suffers from insufficient strategic and geographic focus and has other defects in design that require attention, e.g. being predominantly supply-pushed rather than demand-driven. The assessment concluded that strategic refocusing of CHAP is necessary if it is to deliver its maximum potential contribution to the mission's overall goals and objectives. The implementation of this program will be conducted, according to the new strategy, under SO 3.4 "Social safety net reaches vulnerable groups;" IR 3.4.2 "Targeted assistance alleviates immediate suffering."

1997 – 2001 Moldova Strategy General Trends and Assessments

1998 - The president, Petru Lucinschi, and the government formed in 1997 have generally endorsed continuing reform during this past year, but the process and results have not been without challenges. The lack of rapid growth and demonstrable distribution of economic and social benefits have been useful to detractors, who advocate less than a market-oriented economy. The effective extent of this dissatisfaction will be revealed through the parliamentary elections of March 1998, and may impact the subsequent formation of a new government. The breakaway Transdniester region continues to resist economic and democratic reforms, however, if a settlement is reached and the region is reintegrated with the rest of Moldova, USAID can expect the GOM to request additional assistance in helping the region catch up to the rest of the country.

1999 - The economic crisis in the Russian Federation (Moldova's major trading partner) which began in August 1998 did result in significant pressure on the Moldovan leu, moving it from 4.6 to 8.6 to the US dollar in a very short period; however, over the first quarter of 1999 the currency has apparently stabilized again. Despite a 1.3 percent GDP growth in 1997, Moldova experienced a decline of about 1.3 percent in GDP in 1998 as compared to the initial forecast of a 3 percent GDP growth for 1998. Although there has generally been stability in the political process, political pressures caused the fall of the government in February 1999, followed by a difficult period in forming a new government. The new GoM action program calls for a steady application of tight financial policies, accelerated structural reform, and privatization.

For Moldova, 1998 was a critical year as the country found itself at the confluence of two main crises of both economic and political nature. The economic crisis is beginning to create a consensus among policy-makers that market reforms need to be accelerated and deepened. Both the government and the parliament are convinced that the size of the public sector needs to be reduced, privatization of the agricultural sector and the energy sector to be accelerated and the sphere of action of the state in the social sector to be redefined. Similarly, in order to support the development of a vibrant civil society, the government is studying a new law on local government finance and administration. In short, the contraction of economic activity has helped Moldovans understand that in order to gain the benefits of a market economy reforms need to be fully achieved.

Moldova has also experienced a political crisis. In the parliamentary elections of March 1998, 40 percent of the seats went to the communist party, and only a tenuous coalition of center and right parties enabled the country to function through the latter part of 1998. In fact, this coalition has proved to be rather unstable. Despite this political situation, Moldova has continued to make slow but steady progress toward building a democratic political system. The government formed in May 1998 has continued supporting and promoting reform but the coalition broke down on February 3, 1999 and the country remained without a new government for six weeks. In the end the mechanisms of a parliamentary democracy worked in the formation of a new government. Continuing

economic and political challenges may impact the new government. Economic stabilization and political stability require continuous efforts.

2000 - All USAID projects have a varying degree of social dimension. The privatization program targeted mass privatization and land reform before expanding to privatization of strategic industries. Fiscal reforms have focused on increasing revenue collection to help the GOM not only meet the IMF budget deficit targets and pay civil servant salaries and pensions. The Winter Heat Program contributed significantly to alleviating the hardships of vulnerable groups during energy sector restructuring. In the absence of a safety net, the social cost of structural adjustments may seriously threaten popular support during the transition and keep Moldova from realizing its full potential as a market-oriented democracy.

2001 - Moldova was approaching financial and macro-economic stabilization when it was adversely affected by the mid-1998 Russian financial crisis, from which it is just beginning to recover. Moldova's trade with Russia accounts for more than 50% of its foreign trade. The country's large external debt – more than a quarter of which is energy debt owed to Russia, Romania and Ukraine – amounted to about \$1.3 billion at the end of 1999, or more than 100% of GDP. Lack of political continuity has also limited the economic recovery. The 1998 parliamentary election produced an unstable political coalition that resulted in the fall of the Ciubuc government in February 1999. In late 1999 the country was effectively without a government for six weeks. These situations, however, did not create political and social unrest, and in the end the mechanisms of a parliamentary democracy worked in the formation of the Sturza government in early 1999, succeeded by the Braghis government in December 1999. Like the Sturza government, the Braghis government was reform-minded and its programs called for tight fiscal policies, accelerated structural reform and privatization. The Braghis government resigned in the wake of the overwhelming victory of the Communist Party in the February 2001 parliamentary elections. In April, 2001 the Moldovan citizens voted for a new Communist government to compliment the Communist parliament...

What are the lessons learned here?

Footnote: Compounding Moldova's economic and political challenges is the failure to reach agreement on the status of the Transnistria region, the most heavily industrialized region in Moldova. Although it has the potential to supply all of Moldova's energy needs, this region's economic conditions and poverty are much worse than in the rest of the country. Until the Transnistria region is reintegrated with the rest of Moldova, it will continue to resist market and democratic reforms and undermine the economic growth of the entire country. This was an issue that has not changed in status since the start of this strategic period.