

Moldova

The Development Challenge: The dismal economic condition of Moldova was inherited from the former Soviet Union. It worsened during a painful economic transition during the 1990s and after the loss of traditional markets in the East. Since the 2001 presidential election, conditions have been improving very gradually. At that time, the Communist Party of Moldova (CPM) was elected to office in what most observers consider to be a reasonably free and fair process. The CPM was elected based upon the opinion shared by the majority of the population that the previous "reform" government was corrupt, not accountable, and certainly not proactive in helping to improve economic and social conditions within the country. Unfortunately, in many instances the CPM-dominated Government of Moldova (GOM) has demonstrated the same negative qualities of the previous regime. The GOM's public declaration in 2003 that integration into the European Union is the country's strategic priority may signal a renewed commitment to reform processes in Moldova.

Although the GOM has not denounced pro-democratic, economic and social reform initiatives that were introduced during the 1990's, they have been selective in their support of some reform measures and have worked to reverse or derail others. Good banking regulation has helped the banking sector to develop into one of the strongest among the CIS-7 (Commonwealth of Independent States) countries. However, the GOM has reversed the outcome of several earlier privatizations. As a result, important foreign investors left the country, while others have faced substantial levels of intervention from the authorities. Fortunately, the resolution of the Union Fenosa case, Moldova's largest foreign investment, as well as the amical resolution of a long- running dispute with a French investor, has started the process of restoring Moldova's image. Corruption, however, 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 is home to the majority of Moldova's heavy industry. Drought conditions during 2003 were reported as the worst since 1945, further exacerbating growth in the agri-business sector and serving as a drag on gross domestic product (GDP) growth for the country. Nevertheless, Moldova continues to make progress toward developing a viable free-market economy. Moldova will record its fourth consecutive year of GDP growth in 2003, with year-end real GDP growth predicted at 6%, the same rate of growth as in 2002. This growth rate is impressive considering that, prior to 2000, Moldova had recorded only one year of GDP growth since independence. However, inflation is estimated to be 18% in 2003, up significantly from the 8% rate in 2002.

Moldova has adopted the basic reforms necessary for a market economy: prices have been largely freed, foreign trade has been almost fully liberalized, and the Moldovan leu is fully convertible for current account transactions. Customs revenue increased by approximately 40% in 2003. Export quotas have been eliminated, and import tariffs have been substantially reduced.

According to the European Bank for Reconstruction and Development (EBRD), GDP per capita is \$448. This is equivalent to about \$1,400 if output is corrected according to purchasing power parity. This puts Moldova in the same income bracket as many low-income developing countries. According to a 2002 household survey, just over 40% of Moldovans live in absolute poverty. Over 70% of the poor live in rural areas, and only 8% live in large cities. Between 12% and 30% (approximately 800,000) of the population has emigrated to work abroad.

Current account deficits remain the Achilles' heel of Moldova's macroeconomic performance. Even with substantial inflows of remittances from Moldovans who are working abroad, the current account deficit is 5% - 7% of GDP. The cumulative current account deficits, particularly large during the second half of the 1990s, have resulted in a debt stock that greatly exceeds prudent limits. According to the International Monetary Fund (IMF), external debt to GDP is projected at roughly 90% this year. The GOM realizes that this magnitude of external imbalance is unsustainable and has attempted to act preemptively by working on rescheduling debt service with many, if not all, of its institutional lenders.

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

The USAID Program: The Program Data Sheets provided below cover the three objectives for which USAID is requesting funds in FY 2004 and FY 2005. These objectives concentrate on supporting private enterprise growth to create jobs and generate income; developing effective, responsive and accountable democratic institutions by strengthening local government autonomy and civil society; and helping create a social safety net to reach vulnerable groups.

In the economic area, resources will be used for continued assistance to the agri-business sector, private farmers, and SMEs. A land privatization project will help develop a land market and increase investment opportunities. Continued funding will be provided for the enhancement of credit and the Western NIS Enterprise Fund programs, which also promote investment and private enterprise development.

USAID assistance for better government will be enhanced this year with new or expanded activities in local government reform, citizen participation, assistance to political parties and promotion of the rule of law.

All USAID activities for Moldova include assistance for the economic and social empowerment of women. This common theme throughout the portfolio aims to provide tangible assistance and hope for girls and women who may be misguided into a trafficking situation. USAID will supplement ongoing activities with a new anti-trafficking activity that will be awarded this year. USAID will also assist with combating tuberculosis and other priority health concerns that are prevalent in Moldova.

Other Program Elements: USAID's Economic Growth, Agriculture and Trade Bureau manages the Farmer-to-Farmer Agribusiness Volunteer Program, a Food Industry Development Program, and a Loan Portfolio Guarantee program. The latter, which assists micro-enterprises and small businesses on the basis of a risk sharing arrangement, has been a particular success in Moldova. During the first three years of this program, nearly 1,000 loans became available in the SME sector, totaling approximately \$8 million. The U.S. Department of Agriculture administers a commodity monetization program that provides agricultural land mortgage loans. Mortgage loans under this program, working through three financial institutions, total about \$1 million.

Other Donors: Donor coordination is maintained through occasional meetings of all bilateral and multilateral donors, at which the United States is represented by the U.S. Ambassador and the USAID Country Program Coordinator. The U.S. is the major bilateral donor. However, Germany, the Netherlands, Denmark, Japan, Great Britain and Sweden all have bilateral programs. In addition, the Soros Foundation and several other private organizations run development programs in Moldova. Besides U.S. bilateral assistance, the other major players include multilateral donors such as the International Monetary Fund (economic policy), the World Bank (economic policy, social investment fund, micro-projects at the village level and energy), the European Union-Technical Assistance to the Commonwealth of Independent States (poverty reduction, legal and economic development, and macro-financial assistance); the European Bank for Reconstruction and Development (private sector development), and the International Fund for Agriculture Development (agricultural sector). The United Nations Development Program provides support for a number of separate activities. By including Moldova in its New Neighbor Process, the EU signaled at the end of 2003 a willingness to increase its assistance levels to Moldova, if it pursues policies bringing it closer to the EU's standard of a democratically-grounded political process and a market-based economy.

Data Sheet

USAID Mission:	Moldova
Program Title:	Private Enterprise Development
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	117-0131
Proposed FY 2004 Obligation:	\$12,978,000 FSA
Prior Year Unobligated:	\$9,535,000 FSA
Proposed FY 2005 Obligation:	\$6,671,000 FSA
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2007

Summary: The USAID Private Enterprise Development program in Moldova consists of technical assistance to private farmers and businesses; and energy-sector and communication infrastructure reform.

Inputs, Outputs, Activities:

FY 2004 Program:

Agriculture (\$6,415,698 FSA, \$8,176,042 FSA carryover). The Private Farmers Assistance Program (PFAP) will continue to help private farmers develop their business enterprises, as well as work for a sound legal and regulatory environment and help ensure that the transition from state-owned to private farms results in sustainable economic growth. PFAP will provide legal assistance and advocacy in support of the constitutional rights of landowners and assist the members of rural enterprises, including farmer business cooperatives and agriculture producer's associations, by teaching agriculture production enhancement techniques, market development, and access to credit. PFAP will create additional capacity within the National Union of Agricultural Producers Associations and help 14 regional Agricultural Producers Associations become sustainable. The PFAP will provide a minimum of 125 business cooperatives and 125 rural small and medium enterprises (SMEs) with technical, marketing, and legal services that will contribute to an increase in agricultural production, employment, and personal income. In addition, a non-government, multi-donor supported agricultural policy analysis and formulation capacity will be created. The principal contractor is the East-West Management Institute (prime).

The Land Privatization Support Project (LPSP) will assist Moldovan economic growth through the development of a land market and increase investments by small, medium, and large landholders in private sector agriculture. This project will help consolidate land holdings through market-driven mechanisms, advance gains made in land privatization, and assist in the development of private property rights. The principal contractor is Development Alternatives, Incorporated (DAI)(prime).

The Agribusiness Development Project (ADP) will focus on the following activities: a) export market penetration and diversification, b) establishment and strengthening of value-adding enterprises to farm produce for the export market; c) increasing the supply and quality of agricultural products at the farm level to improve export opportunities, and d) organizational development.

Economic Growth (\$6,562,302 FSA, \$1,217,200 FSA carryover, \$141,569 FSA prior year recoveries). The BIZPRO project that provides assistance to SMEs will continue to increase their economic role by facilitating access to market business skills and information, building the capacity of business service providers, and improving access to financing. Assistance for regulatory reform and good governance will focus on the following elements of effective public finance reform: 1) assessment of barriers to business; 2) recommendation for a simplified form of taxation; 3) recommendation for a streamlined form of regulation; and 4) analysis of budgetary impact of proposed recommendations for reform. The contractor is DAI (prime).

The Credit Enhancement Project (CEP) is providing access to credit for SMEs and farmers. The CEP guarantees 50% of the loan portfolios of the partner financial institutions. These guarantees will increase the number of loans available to SMEs for business development. The current implementing partners are local financial institutions: Mobiasbank, Moldinconbank, Banca Sociala, and Rural Finance Corporation.

FY 2005 Program:

Agriculture (\$5,229,416 FSA). PFAP will continue to help farmers build markets and provide other relevant technical assistance. The program will support the development of a sound legal and regulatory environment; provide legal assistance and advocacy in support of the constitutional rights of landowners; and provide direct technical assistance to newly created farmer associations, cooperatives, and other rural enterprises. ADP will continue working in rural areas of Moldova by providing a variety of assistance to SMEs and assisting farmers with increasing the quality and quantities of goods produced. The LPSP will continue to work on ensuring land tenure security. Principal contractors: same as above.

Economic Growth (\$1,441,965 FSA). BIZPRO will continue to provide support in the fields of regulatory reform, business skills development, and access to finance. The CEP will continue its operations with all participating financial institutions and may add a few more institutions to the project. A portable guarantee initiative for Rural Finance Corporation might be sought. The WNISEF effort to improve the investment climate in Moldova will be continued. WNISEF has a sizable investment portfolio and has already had substantial reflows and earnings to respond to new investment opportunities. Principal contractor: same as above.

Performance and Results: Despite anti-reform maneuvers by the Communist Party of Moldova (CPM), USAID partners have achieved many successes developing policies, laws, and regulations in favor of private enterprise development. During 2003, PFAP continued its technical, logistical, and financial support to the 14 Agricultural Producers' Associations, their network of 14 Business Centers, and the Republican Union of Agricultural Producers' Associations. PFAP and the Private Farmer Commercialization Program (PFCP) have continued the development of the network of Mechanical Services Centers, resulting in the establishment of about 192 business cooperatives, 80 farm stores, and a series of highly sophisticated pilot agriculture partnerships. Commercial banks have increased the number of loans to private enterprises by 75% during the first six months of 2003, compared with the same period of 2002.

By program completion, it is expected that land tenure will be secure, landowners will have the capacity and knowledge to defend their property rights, and private agriculture will be sustainable with little serious threat of re-collectivization. Private farmers will have sufficient access to quality inputs, equipment, services, loans, technical advice, and markets that provide them with an opportunity to succeed.

Moldova has made progress in transition to a market economy. However, the nation still needs to reduce government interference in private sector development in order to attract local and international investment. This will require substantial international donor assistance in introducing new agricultural processes and agri-business technologies that can make this industry more competitive and enable it to assume a role in the emerging global economy.

Data Sheet

USAID Mission:	Moldova
Program Title:	Democratic Transition
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	117-0230
Proposed FY 2004 Obligation:	\$1,350,000 FSA
Prior Year Unobligated:	\$3,397,000 FSA
Proposed FY 2005 Obligation:	\$5,485,000 FSA
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2007

Summary: The USAID Democratic Transition program in Moldova consists of the following components: technical assistance to local government units; small grants to local NGOs; and a legal reform program to promote the rule of law. USAID will augment these activities with two new components: citizen participation and political party development programs.

Inputs, Outputs, Activities:

FY 2004 Program:

Responsible and accountable local government (\$850,000 FSA, \$1,350,000 FSA carryover). Local Government Reform Project activities include: 1) increasing the autonomy and sustainability of effective local government through implementation of the previously adopted Moldovan Government initiatives for greater fiscal decentralization; 2) improving strategic planning for municipal services and assets; 3) increasing transparency and citizen participation in decision-making at the community level; and 4) promoting strategic planning for local governments and municipal associations. Currently, there are more than 50 communities participating in the local government program. Forty-one of these communities have received intensive training and technical assistance in office automation/financial management, and 43 communities have completed strategic plans.

In FY 2004, this process will continue through these highly participatory forms of citizen involvement, improving transparency and helping local governments to become more accountable to the citizens who have elected them. The proposed extension of the current program will involve more local government partners and make models of service improvement available by "rolling-out" (via additional training and technical assistance) lessons learned from the several municipal pilot demonstration projects, building upon successful USAID projects in the region. Based on the needs assessments for assisted communities, training and technical assistance for budgeting, economic development, municipal association strengthening, and legislation for communal services will be provided to local governments, citizen-based NGOs, and municipal officials. The principal contractor is the Urban Institute.

Citizen participation (\$2,046,840 FSA carryover). USAID plans to start a five-year, \$10 million Citizen Participation program. This new activity is expected to strengthen local communities and civil society and compliment other USAID activities that assist with the development of new jobs and economic opportunities in rural Moldova. The project will actively engage local governments, citizen groups, and NGOs in community and economic activities that are also intended to enhance local democracy and grass-roots citizen participation. It will also complement and enhance USAID's existing local government reform program and revitalize local communities through strong citizen participation and community empowerment. Principal contractor/grantee to be determined.

Political party development (\$500,000 FSA). A new three-year Political Party Development program was initiated in FY 2003. The new activity will address the issues of political power, democratic initiatives and leadership skills at the grass-roots level. The objective of the program is to create conditions for the political leadership to evolve in communities, involve local political structures, empower political activists,

and build democratic practices from the bottom up. The principal grantees are the International Republican Institute (IRI) and the National Democratic Institute (NDI).

Rule of Law (\$0 FSA). The program will continue to focus on training and technical assistance in three main areas: advocacy on behalf of human rights, legal association building, and institutional capacity building. The advocacy program will have an immediate impact on defending citizens' rights. This program will increase citizen confidence and help them to develop a better understanding of the legal system through consultations provided on human rights, freedom of speech and association, minority rights, property rights, labor law, family law, and privatization. Most of these tasks will be concentrated at the local level, in conjunction with the Local Government Reform Project. The principal contractor/grantee is the American Bar Association Central and Eastern Europe Law Institute (ABA/CEELI).

FY 2005 Program:

Responsible and accountable local government (\$5,485,000 FSA). USAID plans to use the FY 2005 funds to continue providing technical assistance to local government units, NGO development, and to support the legal reform program, as well as citizen participation and political party development programs. USAID expects to renew its Rule of Law program in FY 2005. The implementing partners are the Urban Institute, the Eurasia Foundation, the IRI and NDI, and ABA/CEELI.

Performance and Results: Through its FY 2003 Local Government Reform (LGR) programs, USAID significantly contributed to advancing the rule of law by informing citizens of their legal rights and responsibilities and providing free legal consultations and representation. Further, the project increased the legal system's capacity to respond more effectively to this demand by improving the knowledge of judges, lawyers, and other legal professionals. The LGR project is introducing community strategic planning, improving financial management and services and increasing transparency and citizen participation. Citizen participation in decision-making was reported in 20 partner local governments in the budget sphere and in 58 local governments for municipal services and strategic planning. Pro bono legal services were expanded in targeted regions. The capacity of the legal system to meet the demands was increased, and assistance was provided to a total of 1,273 new clients. Public outreach and education projects which helped promote public awareness of legal rights took place in 26 Moldovan villages. The project advised 1,026 citizens on how to handle various issues, including human rights, social benefits, labor and environment.

Based on successful introduction and demonstration of formal public hearings at the local government level, it is anticipated that the methods of citizen participation will increase transparency by extending it to an ever-increasing group of participating local communities. Based on earlier demonstrations, it is anticipated that this democratic practice will begin to be institutionalized by an increasing number of local governments. As more communities prepare, adopt, and begin implementing strategic plans, a combination of increased revenues resulting from fiscal decentralization and some donor assistance will enable those communities to utilize the municipal service models demonstrated by USAID implementing partners all across Moldova.

By the end of the program, local governments in many communities throughout Moldova will have the capacity to establish and implement strategic development and investment plans that address local problems and concerns. Furthermore, they will find prepared and willing partners among a more knowledgeable and informed citizenry, with a sizable body of examples of the success of participatory and democratic action.

Data Sheet

USAID Mission:	Moldova
Program Title:	Social Transition
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	117-0340
Proposed FY 2004 Obligation:	\$3,930,000 FSA
Prior Year Unobligated:	\$2,116,000 FSA
Proposed FY 2005 Obligation:	\$3,498,000 FSA
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2007

Summary: USAID/Moldova's Social Transition Program includes three components: humanitarian and social assistance, combating infectious diseases, and the new anti-trafficking initiative.

Inputs, Outputs, Activities:

FY 2004 Program:

Combating Infectious Diseases (\$3,580,000 FSA, \$150,000 FSA carryover). Tuberculosis (TB) is a major public health danger in Moldova. The TB epidemic is being driven by declining social and economic conditions, growing unemployment, and subsequent poverty, as well as by inefficient anti-tuberculosis practices. The Combating TB Bilateral Project is a new four-year activity that will expedite and complement the implementation of the cost-effective World Health Organization (WHO)-recommended DOTS (Directly Observed Treatment, Short Course) strategy for tuberculosis diagnosis, treatment and care procedures. At the end of the project, the following results are anticipated: improved laboratory capacity to diagnose infectious pulmonary TB; strengthened institutional capacity of the Moldova primary health care system to initially detect TB suspects and provide post-hospitalization anti-TB treatment; established up-to-date TB surveillance system; increased knowledge of TB signs, symptoms, referral, and treatment of the general population; and establishment of a facility to monitor multi-drug resistant TB and DOTS Plus treatment for TB patients with confirmed drug resistance. The implementing partner will be the American International Health Alliance (AIHA).

The Combating TB Cross-Border Project will build upon another on-going USAID-funded Regional Moldova/Romania TB Initiative. This activity has two components: 1) TB laboratory strengthening to improve laboratory diagnosis, treatment, outcome monitoring, laboratory safety, and quality control; and 2) Improving TB drug procurement and supply management systems to assure the uninterrupted availability of the appropriate TB drugs in the correct quantities, at reasonable prices, meeting recognized standards of quality, and supported by favorable political and regulatory processes. The implementing partners will be the Rational Pharmaceutical Management Plus (RPM+) and WHO.

During FY 2004 the Mission will implement a Priority Health Concerns project that will provide assistance for reproductive and maternal health and the prevention of priority infectious diseases. The levels of morbidity and mortality associated with infectious diseases rank high on the list of Moldova's most serious health problems. The rapidly increasing incidence of HIV, the high prevalence of hepatitis and elevated levels of sexually transmitted infections (STIs) are especially problematic. The low utilization of modern contraceptive methods has led to a high abortion rate and high maternal mortality. A set of activities focused on primary prevention and behavior change, strengthening of diagnostics protocols, and screening, monitoring, and evaluation will help to improve maternal health and slow the spread of infectious diseases in Moldova. The implementer is yet to be determined.

Anti-Trafficking in Persons (\$350,000 FSA, \$1,446,753 FSA carryover). Moldova is a major origin country for trafficked persons. USAID intends to start a new anti-trafficking project in FY 2004. The project will focus on prevention through public awareness and information campaigns, the identification and

recognition of risk factors, and assistance to potential and actual victims of trafficking through legal consultations, crisis prevention services, psychological rehabilitation, training programs in job skills, and entrepreneurship. The objective of this project will be to prevent trafficking in persons by offering economic solutions to an economic problem. Assistance will be directed to women in rural areas, adolescent girls, university graduates who are seeking employment, and women developing entrepreneurial ideas. Contractor/grantee: to be determined.

Humanitarian Assistance (\$519,579 FSA carryover). The Community Humanitarian Assistance Program (CHAP), a humanitarian commodity distribution program, is a rapid response to the critical needs of the most vulnerable groups of the population. CHAP provides assistance to rural areas and regions often overlooked by other international donors. CHAP has four objectives: improving of the quality of life of humanitarian assistance end-users; increasing capacity of local non-governmental organization (NGOs) partners; improving humanitarian assistance activities by other private voluntary organizations (PVOs); and responding effectively to natural and man-made disasters in coordination with the U.S. Government, the Government of Moldova (GOM) and local authorities. In FY 2004 CHAP/Moldova will be in its last year of implementation and will focus on ensuring the sustainability of the program's local NGO partners. Following the completion of the CHAP program in Moldova, local NGOs are expected to have sufficient capacity and sustainability to independently provide these services. Principal grantee: Counterpart International, Inc.(prime).

FY 2005 Program:

Combating Infectious Diseases (\$2,398,075 FSA). The Combating TB Bilateral Project will continue to work on the key project components, such as improved laboratory capacity, TB surveillance system, public outreach campaigns on TB, and the establishment of a facility to monitor multi-drug resistant (MDR) tuberculosis. Grantee is same as above.

The Priority Health Concerns project will continue to work on the key project components focusing on effective measures to assist with maternal health and stop the spread of blood-borne bacteria and sexually transmittable diseases. Contractor/grantee to be determined.

Anti-Trafficking (\$1,100,000 FSA). The Anti-Trafficking project will continue to focus on economic roots of trafficking and improve access for young women and girls to employment within Moldova. Contractor/grantee to be determined.

Performance and Results: In FY 2003, USAID and its implementing partners achieved significant success in this program. A steady flow of humanitarian assistance shipments occurred. Citizens of Moldova now have more health care options with the operation of model clinics, as well as health care professionals and local government officials who are trained to update policies, treatment protocols, and preventive methods according to international standards. USAID has refurbished the relocated penitentiary hospital for treatment of prisoners infected with TB, creating adequate conditions for WHO's DOTS treatment program. USAID has enabled the GOM to standardize the collection and use of all the data that was previously collected by a variety of applications for social assistance, thus assisting the GOM with meeting the needs of applicants for social assistance based on any number of criteria.

By the end of the program, indigenous NGOs will have sufficient capacity to independently assess Moldova's humanitarian assistance needs, identify donors for humanitarian support, secure funding for the transportation of humanitarian support, distribute assistance to those in need and monitor its use. Moldova will have the indigenous resources necessary to enhance the condition of maternal health and complete implementation of the GOM Anti-TB Program, including the capacity to reach a 75% cure rate, reducing TB cases to nearly the Western Europe average. It is also expected that local economies will be sufficiently vibrant to offer more jobs and economic opportunities to significant numbers of young women who would otherwise be vulnerable to trafficking.