



**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP  
INSTRUMENT**

**REPUBLIC OF MOLDOVA**

**NATIONAL INDICATIVE PROGRAMME  
2007-2010**

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## 1. Introduction

The EC Country Strategy Paper (CSP) 2007-2013 for the Republic of Moldova<sup>1</sup> was drawn up in close consultation with the Moldovan authorities and formally adopted by the Commission on 7<sup>th</sup> March 2007. Member States, other donors and civil society organisations were consulted during the drafting process.

The principal objective of EC assistance to Moldova over the period covered by this strategy is to support the development of an increasingly close relationship between the EU and Moldova in the context of the European Neighbourhood Policy (ENP) and based on the policy objectives defined in the Partnership and Cooperation Agreement (PCA) and the EU-Moldova ENP Action Plan. The EC's assistance strategy focuses in particular on poverty reduction and economic growth and is fully aligned with the EG-PRSP which was adopted by the government in May 2004.

The CSP provides a comprehensive overview of future EC assistance priorities encompassing all instruments and programmes and following the structure of the ENP Action Plan which is divided into seven main chapters.<sup>2</sup>

This National Indicative Programme 2007-2010 defines in greater detail the focus of operations under the national envelope of the new European Neighbourhood and Partnership Instrument (ENPI). It is intended to guide planning and project identification by defining a limited number of priority areas, together with the objectives and results to be achieved.

## 2. Main priorities and goals

Assistance provided under this National Indicative Programme for Moldova will focus on **three priority areas**. Depending on developments regarding the settlement of the Transnistria issue, the EC will provide further specific assistance, within the overall resources available, related to all aspects of conflict settlement and settlement consolidation.

### *Priority Area 1: Support for Democratic Development and Good Governance*

- Sub-priority 1: Public administration reform and public finance management
- Sub-priority 2: Rule of law and judicial reform
- Sub-priority 3: Human rights, civil society development and local government
- Sub-priority 4: Education, science and people-to-people contacts/exchanges

### *Priority Area 2: Support for Regulatory Reform and Administrative Capacity Building*

- Sub-priority 1: Promoting mutual trade, improving the investment climate and strengthening social reform
- Sub-priority 2: Sector-specific regulatory aspects

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<sup>1</sup> Thereafter, the *Republic of Moldova* will be referred to as *Moldova*.

<sup>2</sup> These are: 1) Political dialogue and reform, 2) Cooperation for the settlement of the Transnistria conflict 3) Economic and social reform and development, 4) Trade-related issues, market and regulatory reform, 5) Cooperation in Justice and Home Affairs, 6) Transport, energy, telecommunications, environment, research, development and innovation and 7) People-to-people contacts.

*Priority Area 3: Support for Poverty Reduction and Economic Growth*

Sub-priorities: Education, health, regional/municipal infrastructure and economic development

**3. Indicative budget**

The indicative financial envelope for Moldova under the National Indicative Programme for 2007-2010 is € 209.7 million. This allocation may be increased through allocations under the “Governance Facility” which will reward those ENP countries which show the best performance in relation to governance issues.

The indicative breakdown of resources should be as follows<sup>3</sup>:

Priority area 1: Support for Democratic Development and Good Governance	52.4-73.4 mn (25-35%)
Priority area 2: Support for Regulatory Reform and Administrative Capacity Building	31.5-41.9 mn (15-20%)
Priority area 3: Support for Poverty Reduction and Economic Growth	83.9-125.8 mn (40-60%)

Depending on developments regarding the settlement of the Transnistria issue, the EC will provide specific assistance, within the overall resources available, related to all aspects of conflict settlement and settlement consolidation.

**4. Priority Area 1: Support for Democratic Development and Good Governance**

**4.1. Strategic context/justification**

Strengthening democracy and good governance are key priorities of the Moldovan government and will require sustained support from the EC. These objectives link directly to ENP Action Plan priorities, as specified in particular in chapters 2.1, 2.3., 2.5 and 2.7.

EC support in this area will be able to build on earlier and ongoing interventions as the EC is already providing substantial assistance under current programmes. Priority support is still justified in this area, however, as the needs remain high. As several donors are active in particular in the area of public administration reform and public finance management close co-ordination will be important.

Public administration reform and improved public finance management (e.g. linked to social security systems) are crucial elements in improving institutional capacity, transparency and public accountability of State and administrative structures at all levels. This is also a major element in ensuring the effectiveness of the fight against crime and corruption and the illicit spread of small arms and light weapons.

Linked to this, further assistance for judicial reform will be required to pursue the Action Plan objectives of guaranteeing the independence of the judiciary and building its administrative capacity, and to ensure impartial and effective prosecution.

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<sup>3</sup> Re-allocations between priority areas will be possible within the limits allowed by the relevant legal basis.

Such top-down measures should be accompanied by a bottom-up approach promoting citizens' rights and public participation in the political, economic and social spheres - leading to stronger participation by citizens in public life and in the control of institutional bodies and law enforcement agencies and services, including at local level. This could also involve action to further promote and secure freedom of expression and freedom of the media. Improved access to justice and legal aid and a regulatory framework for civil society are further important elements in this context.

Assistance for reforming and upgrading the education system, including through exchange programmes, with a view to convergence with EU standards and practices, will be essential to strengthen democratic development, social stability and economic competitiveness. Specific action to promote European initiatives and culture in Moldova (and vice versa) will also be eligible for assistance.

Support for scientific and technological cooperation will also be important to further the sustainable and equitable economic development of Moldova.

## **4.2. Sub-priorities<sup>4</sup>**

### **4.2.1. Sub-priority 1: Public administration reform and public finance management**

#### a) Long-term impact

The expected long-term impact will be to contribute to developing a modern state oriented towards satisfying the needs of citizens.

#### b) Specific objectives

The specific objectives are to improve the quality and efficiency of services provided by the public administration, amongst other things, by fighting corruption, and to improve public finance management.

#### c) Expected results

- Administrative and civil service reform plans developed, including anti-corruption measures;
- Implementation of reform plans underway in selected ministries and state agencies;
- Plans for more transparent and predictable public finance management developed;
- Plans for improved public finance management tested in selected policy areas (e.g. social security systems).

#### d) Indicators of achievement

##### *Long-term impact level*

- Increased government effectiveness;

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<sup>4</sup> As far as possible, the definitions of expected long-term impact, specific objectives and results follow the objectives specified in the EU-Moldova ENP Action Plan. Objectives may have to be adjusted in line with the results of Action Plan implementation monitoring.

- Increased satisfaction among citizens regarding State service delivery;

*Specific objectives level*

- Increase in quality (and quantity) of services delivered;
- Shorter time required to deliver services;
- Fewer and simplified administrative procedures;
- Additional anti-corruption mechanisms in place;
- Better public information and greater transparency of actions and expenditures;
- More consultation with citizens;
- Better systems in place to ensure integrity and value for money.

#### **4.2.2. Sub-priority 2: Rule of law and judicial reform**

a) Long-term impact

The expected long-term impact will be to contribute to strengthening democracy and the rule of law.

b) Specific objectives

The specific objectives are to guarantee the effectiveness and independence of the judiciary and build its administrative capacity, and to ensure impartial, effective and independent prosecution.

c) Expected results

- Improved efficiency, knowledge and integrity of all members of the judiciary;
- Implementation of reforms regarding civil, criminal and administrative codes and codes of procedure, based on European standards;
- Improved working methods used by law enforcement agencies and prosecutors;
- Implementation of court system reforms;
- Simplified legal procedures and easier access for citizens and economic operators.

d) Indicators of achievement

*Long-term impact level*

- Increased effectiveness of the judiciary;
- Increased trust of citizens in the judiciary and respect for the rule of law.

*Specific objectives level*

- Greater independence of the judiciary (demonstrated by surveys of lawyers and litigators); enhanced administrative capacities of the judiciary (demonstrated by fewer court cases going to appeal and ultimately being annulled by higher courts).
- More out-of-court systems to speed up and cut the costs of small civil cases;
- Fewer laws in the judicial area (codification).

### **4.2.3. Sub-priority 3: Human rights, civil society development and local government**

#### a) Long-term impact

The expected long-term impact will be to contribute to strengthening human rights and fundamental freedoms.

#### b) Specific objectives

The specific objectives are:

- to ensure respect for human rights and fundamental freedoms, including in the economic and social sectors, in line with international and European standards;
- to promote the involvement of citizens in decision-making processes and controls, including through civil society organisations including consumer NGOs;
- to secure freedom of expression and freedom of the media;
- to promote and enhance cooperation between governmental and non-government players, e.g. in the field of environment, education, etc. and by providing support to organisations such as the Regional Environmental Centre (REC) Moldova;
- to strengthen local government structures in line with standards in the European Charter on Local Self Government;
- to foster active social dialogue between social partners as well as civil dialogue between private, public and civil-society stakeholders.

#### c) Expected results

- Enhanced training and increased awareness within law-enforcement organs on human rights issues including core labour standards;
- Increased public awareness of decision-making structures and procedures and improved capacity of civil society organisations including consumer NGOs;
- Improved and enforced legal and administrative framework to ensure respect of media freedom including journalists' rights;
- High-quality support for implementing national administrative reform plans to strengthen local government in line with European standards;
- Institutionalised dialogue between relevant players with a view to ensuring sustainable environmental, economic and social development.

#### d) Indicators of achievement

##### *Long-term impact level*

- Greater respect for human rights and fundamental freedoms;
- Increased trust of citizens that human rights and fundamental freedoms are being respected.

##### *Specific objectives level*

- Stronger public participation processes (demonstrated for example by case studies on major infrastructure projects or by the development of customer structures);
- Fully sustained levels of freedom of expression and media freedom (demonstrated by independent assessments, NGO reports etc.);

- Stronger local government structures (demonstrated by better management of local authorities and greater ownership of local authorities by their citizens);
- Stronger social dialogue structures (demonstrated by the existence of effective tripartite cooperation and collective bargaining).

#### **4.2.4. Sub-priority 4: Education, science and people-to-people contacts/exchanges**

##### a) Long-term impact

The expected long-term impact will be to contribute to improved democratic development, economic competitiveness and social stability in Moldova.

##### b) Specific objectives

The specific objective is to reform and upgrade education and training systems, including through exchange programmes, and to further the integration of Moldova into the European Research Area.

##### c) Expected results

- Improved quality, capacity and relevance to the needs of society and the economy of the education and training systems and their convergence with EU standards and practices, including greater participation in relevant exchange programmes;
- Greater capacity of research structures (human and material resources) with a focus on scientific excellence;
- Stronger links between scientific and research communities in the EU and Moldova, including educational institutions or networks contributing to the development of business matchmaking in the context of trade support.

##### d) Indicators of achievement

###### *Long-term impact level*

- Social and economic development indicators (unemployment rate, enrolment ratios etc.).

###### *Specific objectives level*

- Improved education and training systems (demonstrated by studies assessing progress of reforms and convergence with EU standards and practices);
- Increased numbers of Moldovan nationals and education institutions participating in relevant exchange programmes;
- Closer integration of Moldova into the European Research Area (demonstrated by a higher number of joint activities and projects including fruitful Private-Public Partnerships in technology licensing and transfer).



## **5. Priority Area 2: Support for Regulatory Reform and Administrative Capacity Building<sup>5</sup>**

### **5.1. Strategic context/justification**

Bringing the Moldovan situation into line with the EU's internal market rules will require major efforts to approximate Moldovan legislation, norms and standards with those of the EU. Progress in this area will also have a positive impact on the investment climate by ensuring transparent, predictable and simplified regulation.

The EC is uniquely well-equipped to support this process as it can build on extensive experience gained in the process of the accession of the ten new EU Member States. When planning support in this area, emphasis should be placed not only on technical advice on approximating legislation and aligning procedures, including technical regulations, conformity assessment procedures and standards but also, equally importantly, on administrative capacity building to ensure national ownership and effective enforcement of the approximated rules and regulations. Support for Moldova's participation in Community programmes, agencies and networks, insofar as these will be open to the country, will also contribute to this process.

The EU-Moldova Action Plan defines a considerable number of priority areas for regulatory reform in relation to trade facilitation and the market, including customs legislation and procedures compatible with international and EU standards, conformity assessment, sanitary and phytosanitary (SPS) issues, consumer protection, establishment and company law, financial services and markets, strengthening of the overall administrative capacity of the tax administration and reform of the tax system in compliance with international principles in order to improve revenue collection, competition policy, enterprise and SME policy, intellectual and industrial property rights, public procurement and statistics.

In addition, sector-specific regulatory reform tasks and administrative capacity building will have to be addressed, notably in the fields of justice, freedom and security (JFS) with a particular focus on migration-related issues, energy, transport, agriculture and environment.<sup>6</sup>

EC support in this area thus links up directly with the priorities of the EU-Moldova Action Plan, as specified in particular in chapters 2.3, 2.4, 2.5 and 2.6. As a general rule maximum flexibility will be required in order to respond efficiently to evolving needs during implementation of the Action Plan and beyond.

### **5.2. Sub-priorities**

#### **5.2.1. Sub-priority 1: Promoting mutual trade, improving the investment climate and strengthening social reform**

##### a) Long-term impact

The expected long-term impact will be to contribute to the process of economic and social reform and development and the gradual alignment of Moldova with the EU's internal market and social standards.

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<sup>5</sup> As far as trade-related Technical Assistance is concerned, the priorities identified here are in line with the World Bank Diagnostic Study of December 2004 focussing on an assessment of the challenges for the Moldovan economy and trade system, as well as spelling out priorities for reform and external assistance.

<sup>6</sup> In well-justified cases and taking into account the limited resources available this may also include infrastructure works.

## b) Specific objectives

The specific objective is to facilitate trade and achieve sustainable improvement in the investment climate and the employment and social situation.

## c) Expected results

- Market and regulatory reform measures in the form of approximation of legislation and alignment of procedures, including technical regulations, conformity assessment procedures and standards, as well as statistical standards, based on the ENP Action Plan and agreed strategy on priorities;
- Implementation of reforms to promote trade and investment, including the removal of many existing barriers;
- Implementation of legislative and policy reforms in the employment and social area aimed at close approximation with EU standards;
- Enhanced administrative capacity to ensure national ownership and effective enforcement of approximated rules and regulations.

## d) Indicators of achievement

### *Long-term impact level*

- Economic and social development indicators and degree of internal-market alignment (as measured and assessed by the EU in relevant progress reports).

### *Specific objectives level*

- Increased levels and (in terms of products) more diversified trade demonstrated by trade statistics from government and other sources;
- Improved investment climate demonstrated by increased FDI, surveys among investors and assessments/reports by the EU and other institutions;
- Improved employment and social situation demonstrated by data on job creation and the provision of social services.

## **5.2.2 Sub-priority 2: Sector-specific regulatory aspects and administrative capacity**

### a) Long-term impact

The long-term impact is expected to be an improvement in the competitiveness of the Moldovan economy as a result of relevant sectoral markets being strengthened, notably in the transport, energy, environment, agriculture and financial sectors and the information society, the development of the legislative and administrative framework for SMEs across all sectors, and the improvement of Moldova's capacity in the areas of justice, freedom and security including border management and migration/asylum.

### b) Specific objectives

The specific objective is to achieve regulatory convergence with the EU and to develop and improve capacity in the abovementioned areas.

### c) Expected results

- Sector-specific regulatory reform and institution-building in line with the priorities in the Action Plan and detailed sectoral strategies;
- Enhanced administrative capacities in ministries or State structures for the relevant sectors to ensure national ownership and effective enforcement.

### d) Indicators of achievement

#### *Long-term impact level*

- Good level of reforms in key sectors (as assessed by the EU in relevant studies/progress reports).

#### *Specific objectives level*

- Good level of regulatory convergence with the EU in key sectors (as assessed by the EU in relevant studies/progress reports).

## **6. Priority Area 3: Support for Poverty Reduction and Economic Growth**

### **6.1. Strategic context/justification**

Moldova is the poorest country in Europe with a per capita income of US\$ 880 in 2005 (GNI Atlas method). While poverty levels fell sharply after 1999, they now appear to have stalled. Between 1999 and 2005, the national poverty rate fell from 73% to 28.5%, marking the largest decline in poverty in Europe and Central Asia over this period. However, starting in 2004, poverty reduction appears to have stalled despite continuous economic growth, and even to have increased in rural areas. In terms of poverty profile rural and less educated groups are particularly vulnerable. Rural households headed by women generally experience lower poverty rates than those headed by men.

Poverty reduction is one of the key goals of the Moldovan government and the country's development agenda is set out in the EG-PRSP adopted in 2004. Country-specific Millennium Development Goals (to be achieved by 2015) including targets and indicators have been defined in the First National Report on the MDGs in the Republic of Moldova which was approved by the government in March 2005. Progress has been made on achievement of some MDGs including education, gender parity elimination and development of global partnerships but targets are unlikely to be met regarding infant and maternal mortality, and prevention of the spread of HIV/AIDS and tuberculosis.

Measures under this priority area should have a specific focus on developing and implementing programmes at regional and local community level, aiming to improve the provision of and access to quality services in particular with regard to education, health and regional/municipal infrastructure<sup>7</sup>. Economic development activities including improved border and customs regimes to support trade facilitation and regional development shall also be supported.

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<sup>7</sup> Such measures obviously need to take the full spectrum of system constraints into account (financing of the sector, human resources development and management, regulatory framework etc.) which implies support to central government to develop and implement appropriate policies. These aspects are covered under the first two priority areas of this NIP. When designing specific programmes and projects, coherence between actions at central and regional/local level as well as appropriate sequencing has to be ensured.

## 6.2. Priorities

### a) Long-term impact

The expected long-term impact is to contribute to the achievement of the country-specific Millennium Development Goals developed for the Republic of Moldova.

### b) Specific objectives

The specific objective is to reduce poverty levels and social inequality and improve living standards.

### c) Expected results

- Improved provision of and access to quality services including education and health care;
- Extended/modernised municipal and regional infrastructure (e.g. education and health facilities, water supply and sanitation systems, road rehabilitation, waste-related infrastructure, energy infrastructure including energy efficiency initiatives);
- Greater capacity for economic development including improved border and customs regimes.

### d) Indicators of achievement

#### *Long-term impact level*

- Progress towards achievement of MDG indicators in the Republic of Moldova.

#### *Specific objectives level<sup>8</sup>*

- Lower proportion of population with a daily income below US\$ 2.15;
- Higher net enrolment ratio in school education and other pupils' performance indicators;
- Lower child and maternal mortality rates;
- Lower incidence of HIV/AIDS;
- Higher proportion of population with permanent access to safe water;
- Higher proportion of people with access to improved sanitation;
- Improved security of energy supplies and reduction of energy losses.

## 7. Implementation

The general principle underlying the programme is partnership to achieve joint policy objectives. The Moldovan counterparts should be included to the greatest possible extent in the design of operations, thus emphasising even further the clear link that must be formed between joint policy objectives and assistance cooperation. This includes exploring possibilities for co-funding from the Moldovan side, thus demonstrating Moldova's commitment.

If too many small, stand-alone measures were to be taken, this would result in administrative overload and delay implementation in general. Instead, programmes should contain a limited number of

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<sup>8</sup> Indicators are based on MDG indicators in the Republic of Moldova. For complete reference refer to First National Report on MDGs in the Republic of Moldova (published June 2005).

components with inbuilt flexibility. While detailed implementation mechanisms will be worked out action by action, support for Sector or multi-Sector Programmes, including the use of pool funding and/or budget support, is encouraged wherever the necessary conditions are met.

New cooperation tools, like Twinning or TAIEX, are expected to be particularly useful in the areas of regulatory reform and administrative capacity building and should be fully exploited. In these areas in particular, flexibility will be important to adapt EC assistance programmes to evolving policy priorities. Support will also be provided, as appropriate, for Moldova's participation in Community programmes, agencies and networks, insofar as these will be open to the country. This should also include support to the final beneficiaries so as to make them able to benefit from the opportunities offered under the open programmes.

As far as support for infrastructure development is concerned, EC assistance should be implemented in close collaboration with the EIB, EBRD and other IFIs and may include support for investment preparation, environmental and social impact assessments, and grant funding of specific investment components. Interest rate subsidies can leverage investments by international financing institutions in the fields of environment, energy and transport, as explained in the Country Strategy Paper. EC support to any form of infrastructure development will be subject to full compliance with the relevant requirements of the EU *acquis*.

An appropriate mechanism will have to be found to foster the development of civil society, including providing support at local community level.

## **8. Risks and assumptions**

The key assumption underlying this Indicative Programme is continuous commitment to the reform agenda and policy objectives in the jointly agreed EU-Moldova Action Plan and in the Partnership and Co-operation Agreement (PCA). Should this assumption no longer hold true, as a result of major policy changes on the Moldovan side, the priorities under this Indicative Programme and the underlying Country Strategy Paper might have to be subject to an early review.

As far as the move to new delivery mechanisms and financing methods such as budgetary support is concerned, the assumption is that progress will be made with the development of well-defined sector policies. Improved public finance management, with donor support, as appropriate, and a stable macroeconomic framework will also be necessary.

## **9. Alignment, harmonisation and consultation**

### **9.1. Dialogue with the government and alignment with national policies**

The policy objectives set in the EU-Moldova Action Plan were formally agreed by the two sides in February 2005.

Consultations with the Moldovan authorities on this Programme and the underlying Country Strategy Paper began during a programming mission in September 2005. It was agreed at that stage that the future assistance strategy had to be based on the jointly agreed policy objectives while selecting a

limited number of priority areas where EC financial assistance could be expected to have most impact. There was also full agreement that the EU-Moldova Action Plan and the EG-PRSP were fully compatible and would thus be jointly targeted under the new EC assistance strategy.

During a second mission in December 2005 draft programming documents were discussed with the National Co-ordinator and the National Co-ordinating Unit as well as with the Ministry of Foreign Affairs which is in charge of coordinating the political aspects of Action Plan implementation. The Moldovan side expressed broad agreement with the proposed programme outline. Throughout 2006 further discussions took place with the Moldovan authorities with a view to finalising the programming documents.

## **9.2. Harmonisation and co-ordination with Member States, other donors, and civil society**

Member States were briefed, and invited to comment on the Programme in the course of regular coordination meetings in Chisinau.

Intensive contacts have been maintained in Chisinau and in Brussels with all relevant donors including DFID, EBRD, EIB, the German government, the IMF, SIDA, UNPD, USAID and the World Bank. A round-table discussion with civil society organisations took place in Chisinau as part of the programming process.

In the spirit of the Paris Declaration on Aid Effectiveness and the Development Partnership Framework signed between the Moldovan government and key donors in May 2006, attention should henceforth be given to closer donor coordination, particularly in the context of preparing and implementing sector-wide support programmes.