

Country Strategy Paper 2004-2006

National Indicative Programme 2005-2006`

Moldova

2004-2006 COUNTRY STRATEGY PAPER FOR MOLDOVA

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Introduction

1. This document establishes the strategic framework (Country Strategy Paper (CSP), Section I) and the overall planning (National Indicative Programme (NIP), Section II) within which EU assistance will be provided during the period 2005-2006. It is based on the Tacis Regulation (Council Regulation (EC, Euratom) No. 99/2000 of 29 December 1999) and follows the guidelines set out in the 'Common Framework for Country Strategy Papers' (SEC 2000/1049). It updates the CSP-NIP 2002-2006 adopted in December 2001, the main reason being the need to take explicitly into consideration the European Neighbourhood Policy (ENP) and the change in government strategy linked to the approval of the Economic Growth – Poverty Reduction Strategy Paper (EG-PRSP).

2. Section I sets out the EU policy approach, based on an assessment of the political and socio-economic situation of Moldova, along with recalling the main objectives of the current EU policy approach to Moldova based on the Partnership and Cooperation Agreement (PCA) and the ENP which provides a new framework for the relations with this country.

3. The Indicative Programme for assistance to Moldova (Section II) sets out the objectives and priority fields of EU cooperation with Moldova. It identifies the main lines of projects to be developed and establishes expected results and impact indicators, while also spelling out risks and assumptions for execution of projects. The EU and Moldova have developed a joint Action Plan within the framework of the ENP, which is in the final stages of preparation for final endorsement. The Action Plan sets out the strategic objectives of the cooperation between the two partners and particular actions to be taken during a timeframe of three years. Support to the implementation of the Action Plan, whose duration largely overlaps with the period of validity of the CSP-NIP will be one of the major tasks for Tacis action in the future. As the Moldovan government has approved a new EG-PRSP, support to its implementation will also be a key task for the Tacis NIP.

4. The Tacis Programme 2005-2006 will focus on:

- Institutional, legal and administrative reform: Support to the implementation of the Action Plan and PCA implementation, and support to the implementation of the EG-PRSP will be key aspects of the current NIP. In particular, Tacis will support the actions that Moldova will need to carry out in order to implement institutional, legal and administrative reform as laid out in the relevant chapters of the Action Plan. This will include, i.a., consolidation of the rule of law, improvement of business climate and fight against corruption; approximation of legislation with assistance provided by the Technical Assistance Information Exchange Office (TAIEX), reform of the health sector, justice and home affairs issues, support to Moldovan customs and border troops to improve control over the Moldovan customs territory, support to improve certification of rules of origin, support to the civil society, support to Moldova in addressing migration issues, and in the fields of training, higher education, and statistics, and for people to people contacts. Support to the National Coordinating Unit (NCU) for the Tacis Programme is also foreseen.

- Private sector and economic development: The current NIP will support actions foreseen in the Action Plan and in the EG-PRSP as designed to promote the development

of Small and Medium size Enterprises (SMEs); privatisation; to support the process of implementation of a new regional development policy with particular focus on rural economy and rural areas; support for trade and exports promotion, including creating conditions for increasing investments and in particular for attracting Foreign Direct Investments (FDI). The financing of a European Information Correspondence Centre (EICC) in Moldova is also foreseen.

- Alleviation of the social consequences of transition: In accordance with the implementation of the Action Plan, the NIP will provide support to poverty reduction policies identified in the EG-PRSP and in the National Action Plan for Human Rights (NAPHR), approved by the Moldovan Parliament in 2003 (see par. 35 below), through social assistance via strengthened NGOs, health and childcare.

5. A total allocation of €42 million is foreseen for the period 2005-2006, to be committed in 2005 subject to availability of funds.

I STRATEGIC CONSIDERATIONS

1. EU objectives

6. The EU objectives towards Moldova are laid down in the Partnership and Cooperation Agreement of 1998 (PCA), in the Commission Communication on “Wider Europe / New Neighbourhood Policy” of March 2003, and in various Council conclusions, in particular those of 16 June 2003 and of 14 June 2004.

7. In essence, Moldova should become part of an enlarged area of peace, stability and prosperity encompassing the EU neighbours to the East and to the South, founded on common values of liberty, democracy, respect for human rights and fundamental freedoms, the rule of law, and market economy. A successful relationship of Moldova with the Council of Europe is part of the EU approach.

8. For this to happen, the internal conflict with the separatist region of Transnistria needs to be settled as a matter of the highest priority. The EU fully supports the mediation efforts by the 5-party process in the context of the Organisation for Security and Cooperation in Europe (OSCE). A key aspect of the settlement process is to ensure Moldova’s control over its entire customs territory. The EU is committed to assisting Moldova in this respect.

9. The EU is deeply concerned about the economic situation in Moldova. Addressing widespread poverty and its social consequences is one of the main objectives of EU action. The EU believes that Moldova can only achieve medium-term economic and financial sustainability by substantially improving the business and investment climate, which is underpinned by sound, consistent and transparent fiscal policies, addressing inter alia the problem of external debt. Integration of environment concerns is likewise important.

10. The EU is equally concerned about the Justice and Home Affairs (JHA) situation in Moldova. The fight against organised crime and trafficking, widespread corruption and money laundering are key objectives of the EU action in support of Moldova. Assistance

on these issues will be provided by the Tacis Programme, in particular through the regional programme on JHA.

2. EU - Moldova relations

2.1 Partnership and Cooperation Agreement

11. The PCA, which forms the current basis for relations between the EU and Moldova, covers all policy areas from foreign and security policy, trade and economic cooperation to “soft” security threats like drugs, crime, human trafficking, and environment.

12. The agreement provides legally binding yet partly openly defined objectives in these fields. It also sets up the institutional structures within which cooperation should take place, including at political senior officials’ and experts’ level. Art. 87 of the PCA establishes the Parliamentary Co-operation Committee between the European Parliament and the Moldovan Parliament, created in 1998 after the ratification of the PCA. These structures have been used regularly since 1998, and work under the PCA has further intensified in 2003.

2.2 European Neighbourhood Policy

13. The ENP offers an ambitious and realistic framework for further reinforcing the relationship with Moldova based on joint ownership and commitment to shared values. Within this framework, the EU and Moldova have developed a joint Action Plan that, to a considerable extent, will be implemented during the period of validity of this CSP-NIP. Implementation of the Action Plan will help Moldova to pursue the objectives set in the PCA and will help Moldova to further integrate into European economic and social structures. Implementation of the Action Plan will significantly advance the approximation of Moldovan legislation, norms and standards to those of the European Union. In this context, the Action Plan will build solid foundations for further economic integration based on the adoption and implementation of economic and trade-related rules and regulations with the potential to enhance trade, investment and growth. It will furthermore help to devise and implement policies and measures to promote economic growth and social cohesion, to reduce poverty and to protect the environment, thereby contributing to the long-term objective of sustainable development.

2.3 Transnistria

14. The EU is actively supporting the process of settlement of the conflict with the separatist region of Transnistria, in full coordination with the OSCE. The current situation is a matter of concern for regional peace and stability and it will be at the doorstep of the EU after Romania’s accession. The necessary solution must be based on the principle of territorial integrity of the Republic of Moldova and should be submitted to a nationwide democratic referendum.

15. Support to a solution takes various forms. Regarding the development of a new Constitution which is taking place within the overall framework of the 5 parties (OSCE, RF, UA, Moldova and the separatist region) mediation process led by the OSCE, a EU expert participates in the work of the Joint Constitutional Committee.

16. Other measures are devoted to border and customs issues. In this regard, the Commission held technical meetings with Moldova and Ukraine in March 2003 and in January 2004. The main issues discussed were the recognition by Ukraine of the new Moldova customs stamps (achieved in May 2003 with an agreement between the two sides); the demarcation of the common border; and the introduction of joint border controls between Ukraine and Moldova, including along the Transnistria section of the border. The Commission will continue to support the dialogue on these issues between the two countries.

17. Separately, the Commission and Moldova have negotiated an agreement introducing a double-checking system for Moldova steel exports to the EU which will help to monitor Transnistrian exports, the region being the exclusive steel producer in Moldova.

18. In February 2003 the Council adopted a Common Position introducing a visa ban on prominent figures of the self proclaimed Transnistria Republic. The measure was fully coordinated with the US, which adopted a visa ban at the same time as the EU and announced publicly by a joint EU-US statement. The visa ban was extended in February 2004 for another 12 months. In its conclusions of 14 June 2004 the Council reaffirmed the EU commitment to supporting the process, drawing on all instruments at its disposal, and in close consultation with the OSCE. This is also one of the key objectives of the Action Plan.

19. With regard to the withdrawal of Russian ammunition and troops from Transnistria, the EU considers Russia tied to its commitments in the OSCE context (Istanbul and Porto Ministerial meetings) and has repeatedly emphasised, notably in the context of the Maastricht Ministerial of December 2003, that the process should be completed without further delays.

2.4 Trade relations

20. Moldova is a member of WTO since July 2001. Since accession Moldova has concentrated on the implementation of WTO commitments.

21. The EU includes Moldova in the General System of Preferences (GSP) under which customs duties are reduced or waived for products classified as sensitive or non-sensitive, respectively. In this context, Moldova also benefits since 2000 from the special incentive arrangements (SIA) for her good standing with regard to the protection of labour rights. Under SIA, double tariff reductions are granted. Moldova's preferential exports to the EU under the GSP have steadily increased, from €77 million in 2000 to €10 million in 2002. Moldova is now ranking 33rd out of the 178 beneficiaries of the EU's GSP. GSP preferences are particularly important for exports from Moldova in the clothing and footwear sectors, which together represent more than two thirds of preferential imports.

2.5 Other aspects

22. Since 2001 Moldova has been invited to the European Conference. The European Conference is a multilateral forum for political consultations on common foreign and security policy, justice and home affairs and economic and regional co-operation. It is

attended by all EU Member States, along with all countries which have an association agreement with the EU and some other European Countries.

23. Moldova is a member of the Stability Pact (SP) for South East Europe, and has repeatedly declared its interest in becoming a member of the Stabilisation and Association Process (SAP) with the countries of the Western Balkans. Moldova hopes thereby to gain a perspective of association to the EU, seen as a step leading towards future EU membership. The EU considers that Moldova can take advantage of its membership in the SP to gain relevant experience for its own domestic challenges. However, the SAP is designed specifically to meet the needs of the Western Balkans Countries in the post war situation. The appropriate framework for EU/Moldova relations will be the European Neighbourhood Policy.

3. Country Analysis

| | | | |
|------------------------------|--------------------------------------|---------------------------------------|---|
| Area (Km²) | Population (million) | GDP/capita (PPP-USD) | GDP (current - USD) |
| 33700 | 4.26 | 1299.6 | 1623.8 |
| Real GDP growth rate | Inflation rate (GDP deflator) | Total external debt (% of GDP) | % of population under the absolute poverty line* |
| 7.2 | 8.1 | 83.1 | 40.4 |

* defined as the monetary amount necessary to purchase a minimum consumption basket.

In 2002 it is estimated at 270.67 Moldovan Lei (€21.1) per month

Source: WB WDI 2004

3.1 Historical background

24. The main part of today's Moldova lies between the Prut and Nistru rivers. As part of the ancient principality of Moldova which also comprised areas of today's Romania, this region was under Ottoman rule until it was ceded to the Russian empire in 1812 and became a province called "Bessarabia".

25. After the October revolution, the Moldovan Republic was proclaimed in Bessarabia. The following year, the Parliament of the new Republic decided to join Romania. However, the USSR never recognized Romania's right to this province: in 1924, a narrow strip of Ukrainian land on the left bank of the Nistru river was declared as the "Moldovan Autonomous Soviet Socialist Republic" by the Soviet authorities. In June 1940, following the Molotov-Ribbentrop pact, the area of Bessarabia was annexed by Soviet troops and proclaimed the "Moldovan Soviet Socialist Republic" together with the Ukrainian territory on the left bank. During the Second World War, Romania re-conquered Bessarabia in 1941 but lost the province again in 1944 to the Soviet Union.

26. During the late 1980s a Democratic Movement for Perestroika began to emerge, soon to be called "Popular Front". After the end of the Ceausescu regime in Romania, some elements of the Front called for reunification of Moldova and Romania.

27. In the parliamentary elections of 1990 the Popular Front obtained 40% of the mandates and became the dominating political force. One of the first acts of the new Supreme Soviet was the adoption of the Romanian tricolour with a Moldovan coat of

arms, and of the Romanian National Anthem. In August 1991 independence was declared. In January 1992 the Republic of Moldova became a member State of the CSCE (OSCE after 1995) and was admitted to the United Nations on March of that year.

28. The population in Moldova is composed by different ethnic groups: Moldovans (63.9%), Ukrainians (14.3%), Russians (12.8%) and Gaugazians (a population of Turkish origins in the south of Moldova, 3%). Under Tsarist rule, and to a much greater extent under the USSR, Moldova was the subject of a systematic policy of russification.

29. When the Popular Front gained power in 1990, one of the first actions was the reintroduction of the Latin alphabet and the recognition of Moldovan as the official language. Ukrainian and Russian are, however, widely spoken by the important Russian and Ukrainian minorities throughout the country as well as by many ethnic Moldovans as a second language or as mother tongue.

30. Among other issues, language also played a role in the secession efforts of the Transnistria and Gaugazia regions in 1990 and continues to be an issue in the settlement process in Transnistria. In particular, schools in Moldovan language and Latin script in Transnistria operate with difficulties. But language remains an issue also in the rest of Moldova, where teaching in schools and availability of school books in other languages are not fully guaranteed and where the issues related to languages often figure in the internal political debate.

3.2 Political parties; elections; Council of Europe and OSCE

31. In the first years after independence, the political scenario in Moldova was characterised by volatile coalition majorities and short-lived governments. This changed after the parliamentary elections of early 2001 in which the Communist Party won a landslide victory and a constitutional majority of over 71 parliamentary seats. A new president was elected (*V. Voronin*) in an internationally recognised democratic process.

32. The two main opposition parties are the Centrist Social Democratic Alliance (formerly Braghis alliance and now part of the “Moldova Noastra” political alliance), and the pro-Romania Popular Christian Democratic Party. The two forces considered together have 30 seats in the parliament.

33. Moldova is generally on track in complying with recommendations by the Council of Europe and has held the chairmanship of the CoE Ministerial Committee successfully during 2003 (May – November). In preparation, the CoE had considered the internal political situation; follow-up by the Moldovan authorities to the legal analyses and recommendations by the Council of Europe; enforcement of the judgments of the European Court of Human Rights; and freedom of expression and information. It was found that substantial progress had been made. The EU provided financial support to Moldova for coping with the resource requirements of the CoE chairmanship.

34. Concerns have been raised by the CoE and the OSCE in particular over the issue of the freedom of media, the conduct of local elections, the legislation on political parties and socio-political organisations and on the law regulating the status of parliamentarians and their immunities.

3.3 Human Rights and fundamental freedoms

35. Moldova has ratified most of the international Human Rights instruments. In the course of the 2002 and 2003 12 Treaties and Protocols of the Council of Europe have been ratified by Moldova. In 2003 Moldova adopted also a National Action Plan for Human Rights. The document, developed in collaboration with the UNDP, was subsequently approved by the Moldovan Parliament.

36. In 1997 Moldova ratified Protocol 6 of the European Convention for Human Rights, and abolished the death penalty. As a Member of the Council of Europe it also has signed but not yet ratified Protocol 13 that aims at the abolition of the death penalty in all circumstances. Moldova has not yet signed the Second Optional Protocol of the International Covenant on Civil and Political Rights (CCPR).

37. Although improvement has been noted in the local detention facilities, serious shortcomings are still to be found. In its report concerning Moldova's obligations under the CCPR, the UN Human Rights Committee stated in July 2002 that the detention facilities do not comply with international standards. More specifically it expressed its concern about the presence of diseases like tuberculosis that are a direct result of the condition of these facilities.

38. The situation is particularly serious in the case of children detention. The absence of specialised juvenile justice and detention institutions means that juvenile offenders are kept together with the adults, in particular during investigation. Moreover, children do not have the right to appeal to the law enforcement and judicial institutions by themselves, but only through their legal representatives, which affects negatively their rights protection.

39. A delegation of the Council of Europe Committee for the Prevention of Torture (CPT) that visited the country in 2001 received widespread allegations of physical ill-treatment of prisoners, mainly during interrogations.

40. Moldova has joined the main international instruments on the rights of the child, and in particular the International Convention on Children's Rights in 1993, and signed in 2002 (but not yet ratified) the two additional protocols on children in armed conflicts and on the Rights of the Child on the sale of children, child prostitution and child pornography. The UN Committee on Children's Rights in its Recommendations of October 2002 expressed general appreciation for the legislative framework on children's rights in Moldova, but pointed to the need for further improvements and to secure implementation and adequate financing. The national plan for the promotion of human rights contains detailed recommendation on how to promote children's rights in Moldova. In particular: to create and develop the social service network for children in difficult situations and to establish a juvenile justice system and a prosecutor office for observing the respect of the legal interests of the minors. The new Criminal Code, which entered into force in June 2003, aims to increase the level of child protection, and contains provisions specifically regarding the worst forms of child labour.

41. With regards to the rights of persons belonging to national minorities, Moldova ratified in 1996 the Framework Convention for the Protection of National Minorities. In principle, legislation in Moldova attributes a special status to the Russian language (status of "language of inter-ethnic communications") and allows the public administration to work, as well as official acts and events to be drafted or conducted, in languages other than Moldovan in those areas where Ukrainian, Russian, Bulgarian

minorities, or other ethnicity form a significant part of the population. The law guarantees the right for pre-school, general, vocational, and higher education in Moldovan and in Russian, at the same time providing the possibilities for members of other minorities to deliver education in their own language. However, according to the UN Human Rights Committee, effective implementation is lacking. Concerns have also been raised about the situation of the Roma and the Gagauz communities that continue to face discrimination, mostly in rural areas.

42. The law on religious denominations passed in July 2002 contained several aspects which, according to the Council of Europe, could raise problems with regards to the compatibility with the requirements of the European Convention on Human Rights. Modifications were subsequently introduced in a new draft which takes into account some of the comments made by the experts of the Council of Europe.

43. Moldova has ratified all ILO fundamental conventions (forced labour, freedom of associations, collective bargaining, child labour and discrimination in employment).

3.4 Transnistria and withdrawal of Russian ammunition and troops

44. A separatist region on the eastern Moldovan border, Transnistria fought in the immediate aftermath of the break down of the Soviet Union a short war against the Republic of Moldova with the help of the remnants of the 14th Soviet army stationed in the region (and taken over by Russia in April 1992 after an intermediate phase of control by CIS commands). After the establishment of a cease fire, the two sides have been facing each other along a separation line guarded by peace keeping forces consisting of Russian troops and troops from the two sides. The population in Transnistria is composed mainly of ethnic Moldovans, Ukrainians and Russians.

45. The OSCE has been actively pursuing an agreement between the two parties, with the assistance of the other mediators operating as part of the so-called 5 party process (OSCE, Russian Federation, Ukraine and the two parties). The Moscow (1997), Odessa (1998) and Kiev (1999) memoranda marked progress towards a future settlement based on: territorial integrity of the Republic of Moldova within its internationally recognised borders; Moldova's control over its customs and border territory; autonomy of regional entities.

46. In the first half of 2003 the OSCE and the group of mediators achieved substantial progress towards a settlement. In January, President Voronin proposed the creation of a Joint Constitutional Commission (JCC). The proposal was also accepted by the leadership of Tiraspol (under pressure of the visa ban introduced by EU and US). The JCC started work in July 2003. In November 2003 Russia proposed a draft framework agreement for a settlement in Transnistria (the "Kozak Memorandum" from the name of the Russian mediator). Some parts of the memorandum, notably security guarantees and the de-facto veto given to a "Transnistria faction" in a future federal senate were widely considered unacceptable. Moldova refused to sign it.

47. In addition to the troops belonging to the present peace keeping force, there are 1500 Russian troops stationed in Transnistria, and considerable stock-piles of deteriorating Soviet ammunition (originally estimated at 42,000 tons) and armoured vehicles. The withdrawal of Russian forces and ammunition, originally set for the end of 2002 (Istanbul OSCE summit agreement), and then for the end of 2003 (Porto OSCE summit agreement), is still unfinished.

48. The conflict has taken a toll also in economic terms. The disruption of trade/economic links caused by the civil war and by practises such as the jamming of cellular phones and cutting off electric power supply negatively affected both sides. Criminal practices seem nonetheless able to overcome the divisions and to make enormous gains.

3.5 Foreign policy orientation

49. Moldova is part of the Community of Independent States (CIS) since its foundation. At the beginning of its mandate, the current government had a “pro-Russian” orientation, and declared its intention to join the Union between Belarus and Russia. Subsequent developments, however, re-oriented Moldova’s foreign policy towards a more Western vector.

50. In 2003 President Voronin set the goal for his country to further strengthen the EU – Moldova relationship. In the follow up, Moldova produced a “concept” paper for promoting a greater integration into the EU. Departments responsible for this initiative have been created in all Ministries, with the European Department of the Ministry of Foreign Affairs playing a coordinating role. The concept paper is geared around Moldova’s wish to be considered as a South East European Country, and to be allowed to participate as member in the Stabilisation and Association Process (see 23 above).

3.6 Economic policy

51. Moldova's policy agenda for the period of 2001-2005 is designed to reorient the state away from its former role of universal care taker, too expensive for the present economic conditions of the country, and towards a well functioning market economy. The programme of the government identifies priorities to modernise the economy and make it more adapted to market rules, e.g. by improving the legal framework for business, streamlining the tax system, developing the strategic agro-industrial sector and developing the export promotion policy. The programme also includes fighting against crime, corruption and the shadow economy by strengthening judicial and law enforcement agencies and enhancing cooperation with international bodies.

52. After the general elections of 2001 the government pursued a less market oriented policy line, in some cases giving rise to concern about the risks of a return to a stronger control by the state on the economy. The pace of privatisation and structural reforms slowed down and the elaboration of a Poverty Reduction Strategy Paper, with the assistance of World Bank (WB) experts, halted.

53. A new EG-PRSP has been prepared under the WB auspices. The new EG-PRSP covers the period 2004-2006 and contains a detailed action plan for economic development and fighting against widespread poverty. It will constitute the basis for social and economic development and reform process for the reference period.

54. The EG-PRSP objective of a general increase of living standards in Moldova should be accomplished by promoting:

- (i) sustainable economic development
- (ii) social policies reform
- (iii) development of human resources.

55. At the same time Moldova will be engaged in the implementation of the Action Plan, which will require broad and far reaching economic reform, inter alia to adapt Moldovan products to the requirements of the EU internal market.

56. In the aftermath of the Russian crisis in 1998 Moldova's foreign debt to GDP ratio rose to almost 80%. By 1999, debt service due amounted to more than four-fifths of central government revenue, a clearly unsustainable level. Moldova's debt exposure is primarily towards multilateral creditors (in particular towards WB, IMF, EBRD), and largely on concessional terms; Russia and other Paris Club members also count as significant creditors.

57. Until the end of 2003 Moldova benefited from the IMF Poverty Reduction and Growth Facility (PRGF- USD 80 million) and its complementary WB programme, a Structural Adjustment Credit (SAC III - USD 30 million). The programmes focused on three inter-related objectives: macroeconomic stability and growth, private sector development, and public sector reform. Since 2000, however, relations with IFIs have been problematic and in 2003 both organisations suspended payments. After the programmes expired towards the end of 2003, they were not renewed.

58. Remittances from Moldovans working abroad are high. They contribute to somewhat easing the burden of Moldova's foreign debt and to GDP growth. The inflow of transfers has grown steadily in recent years, from an already substantial 7.7% of GDP in 1999 to an estimated 19% in 2003.

59. Moldova's foreign trade remains oriented mainly towards the NIS, although after enlargement the EU will become Moldova's first trading partner. Moldova exports are mainly concentrated in agriculture and in the food sector. In the coming years, Moldova is expected to continue recording annual trade deficits equivalent to roughly 25% of GDP, and annual current-account deficits ranging between 7% and 8% of GDP. Inflows of FDI are expected to remain low. The government is concerned about the need to finance the external deficit together with the repayment of foreign debt. A priority area for economic policy in recent years has been structural measures aimed at diversifying exports and exports markets. Tacis assisted the government in promoting Moldovan exports through the creation and the strengthening of the Moldovan Export Promotion Organisation (MEPO), with the participation of the private sector.

3.7 Privatisation and structural reforms

60. Political developments prompted a standstill in reforms in 1999. Only limited progress in the energy sector, preparation of privatisation of wineries and tobacco plants and of Moldova's national Telecom Company was achieved in 2000. The implementation of the third privatisation programme was extended for a second time in 2002. Although it should now be completed by 2005, it is currently running behind schedule. The target list to be privatised includes important enterprises in telecommunication, energy and agribusiness, most of which are loss-making.

61. There has been a significant acceleration in land reform. By 2001 more than 2/3 of the agricultural land belonged to private owners, while half of the land parcels were registered in the national cadastre system. The next stage of agricultural reform should see the creation of new private enterprises, cooperatives and farmers' associations, as well as distribution companies and infrastructure.

62. According to WB surveys, there has been some improvement in the business environment in the past years, including reductions of administrative barriers in business registration, import-export barriers, licensing and tax administration.

63. A survey on macro-economic indicators and an analysis of Moldova's current economic situation is provided in Annex I.

3.8 Social issues

64. Moldova has the 108th position in the ranking of the Human Development index. Among the republics of the former Soviet Union, only Tajikistan (116) has a lower rank. While life expectancy is roughly in line with the values of the other republics of the former Soviet Union, two elements weight negatively in the case of Moldova. The first is the relatively low enrolment ratio in primary, secondary and tertiary education and the second is the low GDP per capita.

65. Life expectancy has remained roughly constant with respect to the 1970s and 1980s, and infant mortality has decreased, but remains above 20 cases per 1000 births, among the highest in Europe. Tuberculosis has increased dramatically to reach 135 cases per 100.000. While Moldova reported relatively low HIV prevalence rates so far (0,20% of population), the country's growth in new HIV cases during 2001-2002 was amongst the highest in the region

66. The poverty rate in Moldova is one of the highest in EECCA. 55% per cent of the population are below the poverty line (of \$2.15 per day, purchasing power). Notably there is a high incidence of poverty among dependent children and families, especially in rural areas.

67. While 54% of the population live in rural areas, rural poverty accounts for 68% of total poverty in Moldova¹. The poverty gap between rural and urban areas continues to widen.

68. The **labour market** situation deteriorated noticeably in Moldova during the 1990s, in line with the poor GDP performance. Positive employment growth only reappeared in 2003. A gradual improvement in unemployment has been recorded, its rate falling from 11.1% at end 1999 to around 8.7% at the end of 2003. Around 38% of the employed population practice informal activities.

69. Many Moldovans citizens have left the country to work abroad, most of them illegally. Estimates of their number vary substantially between 300.000 and 800.000. Among the consequences the high level of remittances has already been mentioned as a positive factor. The loss in human capital and brain drain are among the more visible negative effects of migration. Given the existing poverty level in the country, it is likely that the labour migration will remain a reality in the coming years.

70. It is estimated that about one fifth of the poor are children. Malnutrition and food insecurity, in particular for children, have increased steadily over the past ten years. According to UNICEF and the Ministry of Health, 28 % of children and 20 % of women suffer from anaemia. It is estimated that 10 % of the children under 10 years are

¹ Source: World Bank, 2001.

underdeveloped, mostly because of chronic malnutrition. Increasing number of children are exposed to potential exploitation through homelessness, child labour, trafficking and prostitution. Transition and widespread poverty have also increased dramatically the phenomenon of so called “social orphans”, children that are given by their families to orphanages because they cannot afford to grow them. Conditions in the orphanages have deteriorated during the last ten years, and, given current budgetary problems, are unlikely to improve over the medium term without external assistance.

71. A study conducted by UNDP in 1998 on gender issues shows the emergence of an increase divide in recent years. The study points to a reduced involvement of women inside the administration and higher educational institutions, but notes a consolidation of the trend with regard to employment of women, whose share in the labour force has not markedly declined. Female self employment and entrepreneurship is concentrated in small and medium size enterprises. Their share in large private business is almost insignificant (1-2%). The study notes also some trends that give rise to serious concern. Women are increasingly subject to violence, both within the family and outside, and are also increasingly victims of trafficking by organised crime.

3.9 Higher Education and vocational training

72. Most of the higher education institutions in the country are located in Chisinau. Both the Moldovan State University and the Free International University of Moldova, respectively the most important public and private University, are located in the capital. Outside Chisinau, there are regional Universities in Balti in the North and in Comrat in the South. A new University has recently been created in Cahul. Transnistria has its own University of Tiraspol.

73. Assisted by foreign donors, and notably by Tempus, the Moldovan educational system has undergone important changes and modernisation in the area of university management and of curricula development, in particular in social sciences. Agricultural education has been re-introduced in Moldova.

74. Moldova is committed to gradually aligning to European educational standards and values, with the objective of fully integrating into the European education system. To this end, Moldova has become interested in the Bologna process and is looking for support in key priority areas: establishment of the European Credit Transfer System (ECTS), quality assurance, lifelong learning, curriculum development, university management, training courses for institution building, and academic mobility on institutional level. Further reform is needed at national level in order to make the Moldovan higher education compatible with the European trends.

75. The system of Vocational Education and Training (VET) in Moldova was well developed under the Soviet Union to suit the needs of the command economy. The VET system is rapidly deteriorating. The traditional links between schools and state-owned enterprises have collapsed and the system has not yet been able to realign its training supply to the demand emerging from the labour market. Most VET schools have to cope with obsolete equipment, inadequate resources and teachers who have not undergone retraining for years, difficulties in establishing links with enterprises for practical training placements. The Ministry of Education of Moldova is currently reviewing the national VET system, with a view to increasing the quality of training delivery and making it more flexible. A New Concept on VET and Upgrading of Human Resources has been developed by a Parliamentary Commission and approved in July

2003. The purpose of this Concept is to create a unified national system for all types of vocational training. Despite these reform efforts, the VET system is still not fully adapted to the characteristics of the new labour market.

3.10 Justice and home affairs

76. Moldova is highly vulnerable to organised crime due to its geographical location, the unresolved conflict in Transnistria, its poor state of the economy with low living standards and a high unemployment rate. Inadequate legislation, lack of resources, widespread shadow economy, all constitutes good breeding ground for the growth of illegal activities, corruption and organised crime.

77. As a member of the Council of Europe, the OSCE and the Stability Pact, Moldova is committed to take serious steps to combat corruption, trafficking in human beings and to introduce a reliable anti-money laundering regime which is considered being one of the components in the active fight against terrorism called for in the UN Security Council Resolution 1373 (2001). The country has emerged as a major origin for trafficking in women and children in particular for the purpose of sexual exploitation. Moldova is both an exporter of labour migrants and a transit country for foreign illegal migrants. There is a need to manage labour migration, and to promote a coherent policy, taking into consideration all its social and financial implications. As regards asylum, Moldova has acceded to the 1951 Geneva Convention on the Status of Refugees and its 1967 Protocol. The asylum system still remains institutionally weak.

78. Corruption constitutes a danger for the democratic functioning of the state. According to Transparency International, Moldova is perceived to have an unacceptably high level of corruption. Moldova ranks lower than 100 in the list of the world worst corrupted countries compiled by this organisation. The corruption perception index for Moldova, on which countries' ranking is based, is 1.7, in a range from 10 (highly clean) and 0 (highly corrupt). The salaries of public officials including border guards and migration officials are low and frequently not paid regularly, making them vulnerable to bribery. Moldova has taken steps, in particular within the framework of the Stability Pact, to reduce Corruption. Although some positive evolutions can be noted, reforms appear to have been slowed down or blocked by the very limited financial resources earmarked for their implementation.

79. The European Committee for the Prevention of Torture and the United Nations Committee against Torture have noted allegations that persons in police custody and in prisons are frequently gravely mistreated. Serious concerns have been expressed about the practice of administrative police detention; the law governing police detention needs to be amended to ensure suitable safeguards for arrested persons. Conditions in prisons are exceptionally poor; there are shortages of food, electricity, water, heating and medicine. Prisons are also substantially overcrowded.

80. The UN Committee against Torture and the UN Human Rights Committee have noted their concerns about allegations of a dysfunctional criminal justice system, caused in part by a lack of independence on the part of the judiciary and the prosecutors. The Committee against Torture has called on Moldova to take effective measures to ensure a fully independent judiciary and prosecution service, in conformity with the UN Basic Principles on the Independence of the Judiciary.

81. The already noted absence of specialised juvenile justice and detention institutions means that juvenile offenders are kept together with adults, in particular during investigation. This exposes them to violence and cruel treatment.

3.11 Environment

82. Moldova adopted a three-year National Environmental Action Plan (NEAP) in 1996, which prioritises water quality issues, especially water supply and wastewater treatment in urban areas. According to the 2000 UNECE's environmental progress review, the implementation of the NEAP resulted in progress in particular in reducing the NO_x levels, in limiting the use of pesticides and in improving water quality in major rivers, through wastewater treatment investments. Insufficient institutional capacity and financial resources remain key obstacles to improvement of environment. In 2001, Moldova developed a new Concept of Environmental Policy updating Moldova's environmental priorities and objectives. Creating a central administrative mechanism for sustainable development policies would be important in order to support, i.a., the improvement of environment.

83. Moldova adopted a framework law on Environmental Protection in 1993, which has however become outdated, and has expressed the intention to harmonize its legislation with the EU legislation in the field of environment protection. Moldova is a member of the Danube - Black Sea Task Force. It has ratified relevant international and regional conventions (including Aarhus convention) and has acceded to the Kyoto Protocol. Under the AP Moldova has committed itself, i.a., to work towards good governance, adequate prevention against deterioration of environment, better health protection, a more rational use of natural resources and enhanced cooperation on international environment issues.

4. Overview of EU past, on-going assistance and other donors' cooperation

4.1 Past and on-going EU assistance

84. Since 1991 Tacis has been one of the leading technical assistance programmes supporting the transition process in Moldova. Tacis has allocated around €120 million for the period 1991-2004 in form of National Action Programmes, Regional and Cross-Border Cooperation (CBC) Programmes.

85. Current assistance is based on the 2003 Tacis national action programme for Moldova (€ 25 million), and includes technical assistance in the following areas: institutional, legal and administrative support; promotion of private sector development; assisting Moldova to address the social consequences of transition.

86. Moldova participates also in Tacis regional programmes, dedicated to cross border cooperation, justice and home affairs, customs and border infrastructures, energy and environment. Direct support to the "Söderköping Process", an exercise in networking and exchange of experience on migration issues between Moldova/Ukraine/Belarus, the new Member States and candidate countries, for an amount of € 800,000 was also provided in 2003.

87. The Food Security Programme has provided support to the Republic of Moldova since 2000 in the form of budgetary assistance to finance government programmes and promote reforms aiming to improving food security. The budgetary support is

accompanied by a technical assistance component. The first Food Security Programme (FSP) was successfully completed in 2002 and provided €5 million in budgetary support (with €500,000 in technical assistance). FSP 2002 is currently being implemented – this allocation is for €9.5 million in budget support and €900,000 in technical assistance.

88. Macro-financial assistance (MFA) in the form of loans for a total amount of €87 millions has been given to Moldova since 1991. Current MFA in the form of a grant of €15 million has been allocated to Moldova on the basis of a Memorandum of Understanding between the Moldovan authorities and the European Commission, whereby both parties agreed on conditions Moldova should fulfil prior to any disbursement: strengthen fiscal position, evolving towards a sustainable fiscal policy compatible with a reduction of the debt-to-GDP ratio; improve business climate and reduce obstacles to private sector development; enhance effectiveness, transparency and accountability in the management of public funds.

89. Moldova has benefited from the European Initiative for Democracy and Human Rights. The programme allocated €1.7 million in support of institutions and NGOs dealing with civil and human rights.

90. The already difficult social situation in Moldova deteriorated further in the wake of the Russian financial crisis of 1998. In 1999 the EC allocated around €4 million for exceptional humanitarian aid. Projects concentrated on medicines, vaccines and food supplies for children and elderly people. In 2000, ECHO allocated €0.81 million to continue some of the above-mentioned actions, and in 2001 €0.78 million.

91. Since 1994 under Tempus, Moldovan educational institutions have benefited from over 20 projects, worth a total of circa €4 million. Most of these projects (around 50%) were dedicated to university management, while another important part aimed at curriculum development. Tempus has funded the visits of more than 300 Moldovan professors and students to EU universities.

92. Moldova participates in the EU's R&D 6th Framework Programme activities, in particular INCO-Copernicus, as well as in INTAS projects and in the YOUTH Programme. Moldova will be eligible to participate also in the new initiative Erasmus Mundus, which supports inter-university Masters Courses and provides EU-funded scholarships for third-country nationals participating in these European postgraduate courses, as well as scholarships for EU nationals studying in third countries.

4.2 *Lessons learned*

93. A Tacis country evaluation undertaken in 2000 came to the conclusion that the Tacis approach was broadly correct in the selection of priorities and in the relevance of actions. Problems were recorded with regard to co-ordinating strategies and objectives with other major donors and to the sustainability of certain projects, which depended heavily on the volatile political situation in Moldova. The evaluation recommended removing agriculture from the priority areas and replacing it with broader rural development. The results of SME support were seen as mixed. Given the presence of other donors, strong prioritisation was recommended. The NAP 2003-4 already concentrated activity in fewer projects of larger dimension. This NIP continues this trend. Relevance of Tacis activity in public administration and in the social sectors was considered good. Tacis technical support to Moldova's accession to the WTO and PCA implementation proved rather successful. Donors' coordination is ensured by regular

meetings among the most important donors in Chisinau, as well as by exchange of information and coordination on donors' strategies at central level.

94. With regard to the Food Security Programme, the question of assuring continuity to the EU efforts without compromising on conditions for disbursement of budgetary support has proved key. Disagreement between Moldova and the IFIs, to whose programmes EU assistance is conditioned, have prevented disbursement of EU grants. A similar issue has arisen for the EU macro-financial assistance for which a change from loans to grant was envisaged in order to offset repayments of outstanding loans vis-à-vis the EU (thereby de facto forgiving the debt).

4.3. Assistance 2004-2006 and beyond

95. In addition to the assistance foreseen within the present Tacis National Programme Moldova will continue to benefit from Tacis Regional and Cross Border Programmes. The Regional Indicative Programme for the period 2004-2006 foresees the allocation of € 149 million for Moldova and all the other EECCA countries on the following priority areas: Sustainable Management of Natural Resources; Promoting Trade and Investment Flows; and Justice and Home Affairs. Actions for Moldova will cover in particular the last priority area with the following scope: enhancing integrated border management; improving migration and asylum management; Combating organised crime and international terrorism. The Tacis CBC programme for 2004-2006, in addition to the New Neighbourhood Programmes examined below, envisages the possibility of assisting Moldova in the area of border management and Border infrastructure. Moldova will continue to benefit from support in the framework of the YOUTH Programme.

96. A new Commission decision is currently under preparation for the Food Security Programme 2004-2005. The allocation of €20 million (€18.4 for budgetary support and €1.6 million in technical assistance) was approved in November 2003 by the Food Aid and Food Security Management Committee.

97. Within the ENP framework, Moldova will receive assistance under the new Neighbourhood programmes. As a future neighbour of the enlarged Union, Moldova will be part of, and benefit from, the Commission's efforts to promote further cross border and regional cooperation.

98. For Moldova the budget foreseen for the New Neighbourhood programmes for the years 2004-2005 is € 10 million. This will be allocated for the PHARE – TACIS CBC programme and the CADSES regional programme (TACIS, PHARE, INTERREG IIIB).

99. AENEAS, the new instrument on migration and asylum may provide support to third countries to participate, i.a., in the so called "Söderköping Process", an exercise in networking and exchange of experience on migration issues between Moldova/Ukraine/Belarus, the new Member States and candidate countries.

4.4 Member States' activities and other donors' assistance

100. Member State donors include Denmark, Germany, the Netherlands, Sweden, and the United Kingdom. Denmark is active in Moldova since 1998 in particular on environment issues and NGOs support. Since Moldova's independence, Germany has made available to Moldova around €140 million. Germany provides technical assistance

in the following areas: rural financing; promotion of small and medium enterprises; development of financial sector (micro credits); social infrastructure. Since 1998, the Swedish government has granted in total €19 million to Moldova, mainly focused on the social sector, economic transformation, environment and democratic development. Between 1997 and 2002 the Netherlands granted about €12 million to Moldova for projects in the fields of agriculture, energy, environment and industry. Currently the Netherlands have activated for Moldova the MILIEV (Industry and Environment) and ORET (Development-Related Export Transactions) programmes. In addition the Netherlands finance projects to strengthen the democratisation process and respect for human rights in Moldova mostly through international organisations and NGOs. In 2003 Sweden has increased the budget made available for Moldova to about €10 million per year. The focus is on strengthening administrative capacity, economic development, poverty reduction and democracy and human rights. The United Kingdom provides assistance for an amount of about €3 million per years to improve governance and the institutional environment for poverty reduction, promoting pro-poor sustainable growth and strengthening the contribution of the United Kingdom to conflict resolution and peace building.

101. **IMF.** The last programme was implemented under the PRGF. It was launched in 2000 for the duration of 3 years and for an amount equivalent to approximately €118 million² on 21 December 2000. Three tranches, totalling nearly €31.5 million have already been disbursed in December 2000, February 2001 and August 2002. Afterwards, Moldova went off track with the programme and the IMF first suspended payments. After the programme expired at the end of 2003, It was not renewed.

102. **World Bank Group.** Moldova joined the WB in 1992 and the International Development Association (IDA) in 1994. Since 2000 Moldova can receive assistance from IDA at especially favourable conditions (IDA can disburse interest-free loans having a 35-40-year repayment period with a 10-year grace period and in grants). Since independence IBRD/IDA commitments to Moldova have totalled approximately €420 million³ for 24 projects. Initial lending focused on adjustment support, building a private sector in both agriculture and manufacturing, and improving the economic and financial management of the energy sector. The IBRD/IDA disbursements so far have amounted to €292 million⁴. The central objective contained in the current Country Assistance Strategy of WB for Moldova is to contribute to poverty alleviation and sustainable economic growth. The WB has taken the lead in assisting the drafting of the EG-PRSP for Moldova (see 3.6 above). Disbursements under SAC III - (€25 million/IDA credit) were suspended in December 2002 due to non fulfilment of conditionalities. The aim of the SAC III programme was to support the government's reforms programme aimed at creating conditions for sustainable growth and improving living standards. The loan programme was not renewed when it expired in 2003.

103. **USAID** is by far the largest grant donor to Moldova. The US Agency for International Development (USAID) has provided over €242 million in technical assistance for fiscal and financial reform; growth of private enterprises; strengthening of democratic institutions; and social safety programmes for vulnerable groups.

² 142 million USD.

³ 505 million USD.

⁴ 351 million USD.

104. **European Bank for Reconstruction and Development (EBRD).** The Bank commitments at the end of April 2003 totalled roughly € 170 million in support of projects totalling about €300 million, of which 30% were in the financial sector, 19% in the private corporate and agribusiness sector, and 51% in infrastructure. The current EBRD Strategy for Moldova dates from July 2003. The focus of EBRD's action is on financial sector, enterprises, infrastructure, and improving investment climate in the country.

105. Other donors active in Moldova are Japan, Romania, UNICEF (assistance for institutionalised children), UNDP, and the Soros Foundation.

5. EU response strategy

106. The Action Plan is, as set out above, the main instrument for developing cooperation and EU support during the next year. It will cover a broad range of areas, notably:

- political dialogue and reform,
- cooperation for the settlement of the Transnistrian conflict,
- economic and social reform and development,
- trade-related issues, market and regulatory reform,
- co-operation in Justice and Home Affairs,
- Transport, energy, telecommunications, and environment,
- people-to-people contacts.

107. Implementation of the Action Plan will be done, and monitored, in the existing institutional framework of the PCA.

108. Implementation will require significant progress in terms of political, administrative and economic reform in Moldova. The EU assistance strategy set out in the Indicative Programme (Section II) will support the realisation of these objectives. It will also focus on continuing to support activities undertaken under previous Tacis Action Programmes which have achieved good results. As in the past, actions will concentrate on the following areas of cooperation: (1) Institutional, Legal, and Administrative Reform; (2) Private sector and Economic Development; and (3) Support in addressing Social Consequences of Transition.

109. Inside this framework, in terms of specific objectives to achieve, Tacis should provide: 1) support to the process of settlement in Transnistria and to the consolidation of an eventual settlement, 2) address directly and indirectly widespread poverty in the country, in particular among children and in the rural areas.

110. In order to promote the objectives of the ENP and support the actions foreseen under the Action Plan, as well as supporting the implementation of the EG-PRSP, Tacis will support administrative reforms and the strengthening of administrative capacity. The

legislative process including approximation to relevant EU legislation will also be a focus of attention. The EU will further support government policy designed to improve the business climate, to create favourable conditions for investment, including FDI, and integrating environment concerns. The EU will assist Moldova in creating conditions that could allow the Union to grant further trade concessions to Moldova and other measures designed to improve Moldova's access to the EU internal market. Finally, actions geared towards fostering people-to-people contacts, in particular under the Tempus and IBPP programmes will be supported by the EU.

111. Bilateral assistance can also support the government of Moldova in securing its control of the national border and custom territory, complementing actions in this field undertaken from regional Tacis programmes. Additional actions in Transnistria, in areas such as regional development, promotion of democratic values, support to the civil society, economic reform and enterprise restructuring, could be envisaged in the case of a settlement.

112. Tacis can also support institutional reforms and assist Moldova in creating conditions for stable and poverty-reducing economic growth, while at the same time taking actions to directly alleviating poverty. In this respect the EU assistance should focus in particular on alleviating poverty among children, in orphanages and inside poor families, especially in the country side. It should also support combined actions encompassing rural/regional development, SMEs support, regulatory reforms and improvements in health care. Support to the implementation of the Moldovan EG-PRSP in coordination with other international donors could be a key element of this approach.

113. The field of Justice and Home Affairs with its main components: integrated border management/customs, migration and asylum management and organised crime/international terrorism (including fight against corruption, money laundering and trafficking in human beings), calls for more attention. This is due in part to the effect of Romania's entering the EU, turning Moldova's Western borders into EU's future external borders. Activities foreseen in the Regional Indicative Programme as well as the Cross Border Co-operation for the same period should be complemented by the National Programme in particular on the issue of border management. Ongoing projects on border management and against trafficking in human beings, together with foreseen projects on border management, migration and asylum management and against organised crime and terrorism, together with their complementary actions foreseen in the current CSP-IP, will constitute sufficient follow up to the European Council Declaration on Terrorism.

114. Member States are increasing their activities in Moldova on priorities that are broadly similar to those identified in this CSP. Increased attention should therefore be paid to the coordination of activities also with international organisations and the IFIs. The continuous contact inside the donors' community already in place at a local level should be maintained in order to avoid duplication and overlap of activities.

115. More attention should be paid to increasing the visibility of the EU as well as to enhancing dissemination of the results of the EU assistance. In Moldova, many donors are active and have programmes that are comparatively large. Concentration on few large projects that could effectively impact on the situation on the ground is recommended.

**Tacis National Indicative Programme 2005 –06
Moldova**

I. Introduction

The purpose of this Indicative Programme is to set the framework for the provision of assistance to Moldova during the period 2005-2006. The overall amount to be made available should be 42 Mio €

This NIP was developed during 2003 and early 2004. The Moldovan authorities contributed during discussions in October-November 2003 and February 2004; the Member States and other donors were also approached. A final revision took place in the second half of 2004 when a new programming mission to Moldova took place.

Special care has been taken to reflect the priorities of key policy documents that have been elaborated by Moldova (the EG-PRSP and the NAPHR), or jointly by the EU and Moldova (the Action Plan).

2. Proposed Tacis actions

Tacis actions will focus on the following areas:

| Priority Areas of Co-operation | Total |
|--|-------------|
| 1. Support for institutional, legal and administrative reform. <ul style="list-style-type: none"> • Support for the implementation of the Action Plan and of the PCA, and for legislative approximation • Support to health reform (primary health care) • Justice and Home Affairs activities • Strengthening of Civil Society/NGOs/local initiatives and government • Support to Higher Education⁵ | 23.0 |
| 2. Support to the private sector/assistance for economic development <ul style="list-style-type: none"> • Export and investment promotion • Regional/local development (pilot area), development of micro-and small enterprises with focus on rural areas, VET | 13.0 |
| 3. Support in addressing the social consequences of transition <ul style="list-style-type: none"> • Actions in support of activities by the government and the civil society for the poor, and in particular children. | 6.0 |
| Total | 42.0 |

⁵ Indicatively, the budget for TEMPUS is set in a range between €2.8 and €3.2 million.

In the development of projects particular attention will be paid to the opportunities for promoting horizontal and crosscutting issues, such as gender equality, support to NGOs, and environment protection. Given the high level of activity of other donors, it is recommended to limit the number of projects and increase the average budget. Tacis activity is better concentrated in a small number of areas where positive results can be achieved giving proper visibility to the EU efforts. In particular support will be given to the fulfilment of objectives and implementation of actions foreseen in the Action Plan (Headings of the Action Plan are provided in Annex 3).

3. Main Risks and assumptions

The main assumption for success of the programmes foreseen in this Indicative Programme is that the government of Moldova will return to a positive pattern of legislative and administrative reform, including implementation as appropriate, following up on the commitments that it has undertaken in international fora and to be expected to become integral part of the Action Plan for Moldova.

| |
|--|
| 1. Support for institutional, legal and administrative reform |
|--|

1.1 Support to the implementation of the Action Plan and of the PCA; Support for implementation of international conventions and other commitments

1.1.1. Background and justification

Moldova has actively engaged with the EU in the preparation of the Action Plan within the framework of the ENP. The Action Plan builds upon commitments undertaken within the framework of the PCA and in relevant international frameworks. The implementation of the Action Plan and further progress in the implementation of the PCA demands significant progress in terms of political, legislative, administrative, economic and social reform in Moldova. Administrative reforms are also needed to create the basis for further trade concessions by the EU to Moldova, in particular in the area of certification of rules of origin, and to fulfil commitments undertaken by Moldova in an international framework, and in particular within the WTO.

The Moldovan Government recognises the need to make further progress in these respects, and expressed interest in legislative reform in order to approximate national legislation in key areas to that of the EU.

The EG-PRSP also contains provisions for administrative and legislative reform that when implemented would, i.a., positively impact on the business climate and contribute to make Moldova more attractive for FDI.

The EU has already provided assistance to Moldova in the past to support WTO accession and PCA implementation. Further assistance is envisaged under the 2003 AP. The widening scope of the EU-Moldova relations means that actions already undertaken need to be further developed and consolidated.

1.1.2 Objectives

- Fulfilment of objectives foreseen in the sections of the Action Plan relevant for this area of cooperation, on the basis of priorities jointly set by the EU and Moldova.
- To increase the ability of Moldova to fulfil the Action Plan.

- To assist Moldova to further advance towards full implementation of the PCA.
- Strengthening democracy, the rule of law, improve governance by, i.a, approximating key areas Moldova's legislation to the EU's.
- To create adequate legal and administrative basis for further trade concession by the EU, in particular with regard to the certification of origin of Moldovan products.
- To support Moldova in the implementation of the EG-PRSP; to improve business climate in the country.
- To support for the implementation of commitments and obligations undertaken by Moldova with the CoE, the OSCE, the WTO and other international organisations.
- To promote administrative reform; to strengthen administrative capacity; to increase transparency and effectiveness of administrative procedures; to promote dialogue among all stakeholders in the implementation of sectoral policies.
- To improve the legal framework of the administrative and judicial sectors, and to ensure its implementation.

1.1.3 Orientations for Programme Development

a. Implementation of the Action Plan, of the PCA, of the EG-PRSP and support for implementation of international agreements and conventions

The EU provided assistance to Moldova for the implementation of the PCA and for fulfilment of its obligations under the WTO, from the 2001 Tacis National Programme. Similar support is foreseen in the 2003 Tacis National Programme. Building on the assistance provided by these projects, and in line with the additional requirements that will derive from the implementation of Action Plan, the programme will continue to provide support to Moldova in the form of technical assistance, training, supply of equipment, learning from best practise, twinning and other relevant forms of support to:

- Provide targeted assistance to consolidate the administrative basis for the granting of additional trade concessions by the EU to Moldova and to approximate in key areas national legislation to the one of the EU in line with the Action Plan. The latter assistance will be provided through TAIEX and, if appropriate, twinning.
- Make further progress in the implementation of the PCA and implementation of the Action Plan. Support will be given to the implementation of actions foreseen in the relevant sections of the Action Plan.
- In support of commitments undertaken in the Action Plan by Moldova, strengthen democracy, the respect for human rights and the rule of law and fulfil relevant commitments undertaken within an international and regional context (OSCE, CoE, SP). In particular, the continuation of the joint programme with the CoE is foreseen (see 1.4 below), together with actions designed to strengthen and reform the judicial system, to strengthen the rule of law and the efficacy and transparency of administrative procedures, including streamlining of administrative requirements.
- Support for fulfilment of obligations contracted under the WTO and the PCA;
- Support implementation of the EG-PRSP. Promote administrative reform envisaged therein and designed, i.a., to improve the functioning of the judicial system; reform the management of public finance; improve the regulatory

framework for economic activity; promote competition; improve corporate management and promote external trade. In particular support Moldova in implementing actions foreseen in the EG-PRSP and designed to reduce poverty in the country; to improve quality of assistance to vulnerable groups; and to better target social assistance.

- Continuing support to the NCU in line with previous actions is also foreseen.

b. Statistical infrastructure

Continued assistance to consolidating a statistical infrastructure able to provide the necessary information for policy makers, with due attention to statistical data of direct relevance to policy orientations and priorities identified under the EG-PRSP. Support to statistical infrastructure could be envisaged through a separate project/programme as appropriate.

1.1.4 Expected results and indicators

- Successful implementation of the Action Plan and further advancement in the implementation of the PCA (indicators: EU positive assessment on the implementation of the Action Plan; Joint assessment in the Cooperation Committee on implementation of the PCA)
- Moldova's legislation in key areas harmonised with that of the EU (indicator: number of laws harmonized)
- Independence, impartiality and efficiency of the judicial system strengthen; implementation of legislation improved (indicators: number and quality of new legislation passed; number of regulations and other implementation rules adopted, reports by UN organisations, CoE, OSCE and NGOs).
- Moldova's obligations within the framework of the CoE, the OSCE and other regional and international organisations fulfilled (indicator: positive assessment by CoE, OSCE etc.)
- Moldova's obligations under the WTO fulfilled (indicators: absence of complaints; assessment by WTO)
- Administrative reform in key sectors implemented; improved efficiency and efficacy of administration (indicator: key reforms foreseen in the EG-PRSP and Action Plan implemented)
- Improved business climate (indicators: reduced number of complaints by private investors; increase in FDI)

1.1.5 Specific risks and assumptions

This programme proposal is based on the assumption that the EU and Moldova formalise their agreement on the Action Plan and that the implementation will be underway, in the policy areas concerned, during 2005-2006. The risk of this failing to happen is considered low.

1.2 Support to health reform

1.2.1 Background and justification

The Moldovan health care system is still centred on the structures of secondary health care (hospitals). Cuts in the state financing of healthcare have led to an increase in the number of medical services provided for payment as a result of the introduction of official payments in public institutions, emerging private healthcare sector, and unofficial payments. According to the Household Budgets Survey, only 44.1 % of the population have adequate access to medical services, 40.0% have limited access, and 15.5% have no access whatsoever. There is considerable inequality in the access of different population groups to healthcare services. Rural residents, the elderly and large families have less access to healthcare services than on the national average.

Prevention and adequate early intervention could, in many cases, increase effectiveness of the health care system, avoid hospitalisation of the patients and reduce the overall cost of intervention, while at the same time increase population's access to the medical system. This, however, is not realistically possible until a system of primary health care is created throughout the country. Moldova recognises the importance of the creation of this system. The EG-PRSP states as a primary objective: "to increase access of the population, primarily of the poor, to basic services through the development of primary medical care". Moldova has under-taken preliminary steps in this respect with the assistance of Tacis. In the area of communicable diseases, where other donors (e.g., the global fund) are mostly active, there should be a careful assessment of the need for EU support, given the concentration of donors' efforts in this area.

1.2.2 Objectives

Introduction of a more efficient health care system by creating a primary health sector.
Increase access of the population to the Health care system, in particular in rural areas.
If advisable, provide support to Moldova on fighting against transmittable diseases.

1.2.3 Orientations for Programme Development

The EU will provide technical assistance, training, support to twinning and supply of equipment for setting up a system of primary health care. The system will aim at establishing family doctors and general practitioners throughout the country. Although not necessarily free of charges, the system must be able to give effective protection to patients in rural areas, and be accessible to them even with their very limited income. The project will closely coordinate with the project on the setting up of Compulsory Health Insurance in Moldova and will take into account in implementation the results of this project. The project should also take stock of the result of preliminary projects conducted by other donors in the area, and in particular by *WB Health Sector Reform Project*.

Acting in close coordination with structures of social assistance is recommended in particular in rural areas, where poor health is often the result of poverty as well as related nutritional deficiencies in quantitative and qualitative terms.

Assistance on fighting against transmittable diseases could be provided in the form of support for public information campaign, providing drugs and necessary equipment, training of doctors and nurses, financing of special dedicated centres and actions addressing the social aspects of the se diseases.

1.2.4 Expected results and indicators

Increase access to primary health care for the population, in particular in the country side and for the poor (indicators: number of new general practitioners that start practise; Area covered by the primary health care system; number of patients treated by general practitioners; patients' perceptions).

Creation of family doctors in towns and rural areas (indicators: number of new doctors; area covered by the system of health care; quality of treatment: type of treatment prescribed; number of patients effectively treated; reduce number of patients that need to be deferred to the hospital).

Creation in rural areas of small ambulatories when appropriate (indicators: number of small ambulatories; quality indicators: patients' perception; adequacy of treatment based on analysis conducted, correct use of the equipment etc.).

Introduction of curricula for primary health care doctors in Universities (indicators: number of courses; number of students; quality indicators: assessment of the level of study; students' perception on the adequacy of the courses).

Retraining of doctors and nurses (indicator: trainers' assessment; assessment of trainees).

If relevant, more information/awareness of the risks associated with transmittable diseases among the population and reduced number of people infected each year (indicators: quantitative and qualitative indicators on effects of information campaign as appropriate).

In addition, the results of this programme may also become measurable by reduced recourse to hospitals for minor injuries and diseases (measured on a sample basis) and by morbidity rates and incidence of poverty-related diseases.

1.3 Justice and Home Affairs

1.3.1 Background and justification

The development of efficient judicial and law enforcement structures combating organised crime, while taking into account human rights, is of particular interest to both Moldova and the EU, since Moldova will share a common border with the EU after enlargement. The programme will complement and continue JHA activities already approved in the National Indicative Programme 2002-2003.

1.3.2 Objectives

- Improvement of relevant legislation and regulations, judicial and law enforcement structures in order to address effectively money laundering, trafficking in women and corruption;
- Promotion of regional and national co-operation between the judiciary, law enforcement bodies and relevant NGOs concerning the above mentioned issues;
- Capacity building and training for Border Guards and Customs;
- Improve Moldova's control on the traffic flows of goods and people originating, or passing through Transnistria and directed towards the rest of Moldova.

1.3.3 Orientations for Programme Development

Actions undertaken within this NIP and aimed at integrating and further develop the support provided to Moldova by the Tacis Regional Programme for Justice and Home Affairs should be based on the same objectives. Those are:

- Money Laundering: (i) development of appropriate legislation meeting the 40 FATF recommendations; (ii) awareness raising measures in the Parliament and Government; (iii) capacity building such as provision of training, technical equipment and infrastructure to judicial and law enforcement bodies (in particular to the Finance Intelligence Unit/FIU) as well as provision of training to staff from the financial sector (iv) technical assistance to Bank Commission or equivalent control and supervision body.
- Trafficking in women and children: (i) prevention, e.g. awareness raising measures in particular targeting schools and universities; (ii) development of appropriate legislation and capacity building, such as provision of training, technical equipment and infrastructure to judicial and law enforcement bodies as well as to relevant NGOs; (iii) rehabilitation and assistance to victims such as support for safe shelters and reception facilities, provision of legal and medical services, and (iv) return and reintegration assistance to victims, e.g. provision of psychological and social support to returnees as well as job training.
- Capacity building and training for Customs officials and Border Guards should aim at improving Moldova's control of its borders, including green sections, and increase their awareness of HR and effective ways to respect them, and to a human and effective treatment of refugees and of illegal immigrants. Setting up properly equipped mobile units, integrated IT systems for Customs and Border Troops, and other limited infrastructure could be considered to increase Moldova's control over the flows of goods and people through the Transnistrian section of the border with the Ukraine. Setting up of a system of information exchange between the Customs services and Border Guards of both sides could, if agreed, also receive Tacis support. This will be accompanied by appropriate measures regarding data protection.
- In addition, the issue of corruption will be addressed in this programme. Support will be given to assist Moldova in the implementation of the European Criminal Law Convention on Corruption nr 173 ratified by Moldova on 14.01.2004 which will enter into force on 01.05.2004 and the European Civil law Convention on Corruption nr 174 ratified by Moldova on 17.03.2004 which will enter into force on 01.07.2004.

In addition, support to twinning should be contemplated as appropriate.

1.3.4 Expected results and indicators

- Gaps in policy, structures and legislation identified and strategy to overcome them drawn up (indicator: approval of the strategy);
- Support of regional programmes aimed at reduction of the number of trafficked humans, the proper treatment of the victims and fight against organised crime (indicators: appropriate legislation introduced; other forms of support as appropriate).
- Improved capacity of Customs and Border Guards and increased control over the merchandise and people flows through the Transnistrian section of the Ukraine-Moldova border (indicators: training sessions; information exchange system in place and working).
- Concrete measures aiming at implementing the Criminal and Civil Law Conventions on Corruption (improved legislation, development/amendment of a national anti-corruption action plan, strengthened capacities to investigate, prosecute and judge corruption related offences, active participation of civil society in prevention and control of corruption; other indicators as employed by relevant international surveys).

- Legislation against corruption strengthened and applied (indicators: appropriate legislation introduced; results for Moldova within the CoE evaluation framework GRECO).

1.3.5 Specific risks and assumptions

The effect of the situation in Transnistria on the implementation of the project and on expected results will require careful attention.

1.4 Civil Society (CS) and local initiatives

1.4.1 Background and justification

Civil society is an important factor in the development of a democratic pluralistic society and creation of greater awareness of European democratic values and human rights standards. NGOs can play an important part in social transition and address at community level social problems that might otherwise be overlooked. Support to the CS has been a key element of the EU action in Moldova in past years. The joint EU-CoE programme contains many projects that support the CS and promote its greater involvement in finding solutions for many issues that affect the Moldovan society. The 2003 NAP also foresees direct support to CS.

The development of local initiatives and the strengthening of the capacity of local authorities to involve the CS are important elements of the EU strategy to support democratic reforms in Moldova. This entails, i.a., involving the general public at all stages of the decision process; enhancing the transparency of the decision process and administrative actions in line with the European Chapter on local authorities.

The Institutional Building Partnership Programme is active in Moldova in support to both CS and local initiatives. These elements are key aspects of the ENP with its emphasis on People-to-People contacts.

1.4.2 Objectives

- Strengthening CS in order to interact constructively with Government, in particular at local level.
- To support the work of NGOs and other actors of the CS to promote democracy, respects for human rights, environment protection or working in the social sphere in particular to alleviate poverty, support poor families and poor children, and to address other social emergencies.
- To support local administration in effectively addressing local issues, and to learn from best practise in respect to transparency of administrative action and involvement of stakeholders in decision process.
- To strengthen the capacity of CS actors and local media to work in their areas of specialisation.
- To widely disseminate information on EU matters and to provide better access to EU information sources in Moldova.
- Further promote linkages between Moldovan CS and local authorities and those of the EU.

1.4.3 Orientations for Programme Development

The programme is intended to provide support in the form of grants, to initiatives that are designed to strengthen the CS and local initiatives in Moldova, through twinning, technical assistance, training and other relevant forms of assistance designed to:

- support NGOs and local initiatives: EU assistance may include support to civil society organisations in the fields of poverty alleviation, human rights, trade unions, media and communication, environment protection, youth and children, social issues, women, vulnerable groups (including children in poverty, isolated elderly in urban areas, refugees, etc.) migration, refugees, environment, local governance, culture, economic activities, etc.
- Capacity building for local authorities, NGOs and association of independent media including transfer of EU experience and best practise to Moldova.

Awareness raising on EU issues among specific audiences (academics, students, SMEs/business people, journalists, members of youth and women organisations, trade union members, teachers, politicians, parliamentarians, judiciary representatives, etc.) in Moldova could be envisaged. The possibilities of cooperation in the framework of relevant Programmes in sectors such as youth, culture and media could be explored.

1.4.4 Expected results and indicators

- CS in rural towns and villages strengthened. NGOs', associations' and local government's active participation at local level improved. CS learning to take an active, constructive and responsible part in the development of society and of development assistance (indicator: quality indicators of level of activity of the CS to be identified as relevant).
- CS organisations and local authorities learning to successfully carry out their work, reach their objectives and consequently contribute to improve welfare and to the democratic development of the society in particular in the region. Long-term partnerships between EU and Moldovan organisations created and existing ones reinforced.
- Local administrations improve their working procedures and, when relevant, organisational structures. Local administrations improve targeting of limited resources made available from central budget (indicators: assessment of decision process; indicators based on public opinion as appropriate).
- The EU and its policies in specific fields will be more widely known by target groups. More EU information will be made easily available. The level of knowledge on EU matters will improve and there will be more discussion in the local and national media on the EU. (indicators: number of articles on the EU in the press; quality indicators to be developed as relevant)

1.4.5 Specific risks and assumptions

A factor to be taken into account is new legislation on local authorities which would remove the current limitations to budgetary and administrative autonomy of regions.

1.5 Support for Higher education

1.5.1 Background and justification

Academic cooperation and exchange of academic staff between Moldova and the EU as supported through the TEMPUS programme has brought valuable benefits in terms of mentality change, nations growing closer as well as academic and scientific cooperation which sustains after Tempus funding has ended. The working together of Moldovan professors and students with EU universities and the exchange of visits are of undeniable importance for the future of Moldova's higher education.

1.5.2 Objectives

Fulfilment of the objectives foreseen in the sections on Higher Education of the Action Plan, on the basis of priorities jointly set by the EU and Moldova.

The EU and Moldova have further identified common objectives for the TEMPUS programme. Those are:

- Improve access and quality of higher education for young people, providing them with an international horizon and increasing their ability to contribute to the construction of a democratic, prosperous Moldova.
- Modernise the structure, content and methodology of higher education, also with a view to the Bologna process
- Modernise the structure and management of higher education institutions
- Support the development of international relations with EU higher education institutions as well as the provision of academic mobility

1.5.3 Orientations for Programme Development

(1) On institutional level actions through the Joint European Projects and Individual Mobility Grants include academic exchanges and cooperation activities between EU and Moldovan higher education institutions (involving students, young academics, professors, intellectuals). The strengthening of university management and universities' contribution to training will also be key support actions.

(2) On national level actions through the Structural and Complementary Measures enhance the capacity for strategic planning and institutional development of national bodies dealing with national reform as well as helping them to build up international relations. Actions support also the development or the implementation of a national strategy, the drafting of action plans or legislation to develop specific aspects of higher education and allow Moldova to adhere to the Bologna process.

The cooperation takes into account regional aspects by involving institutions located outside main centres. Both state and private universities are invited to participate. The strengthening of linkages between the academia, the SMEs, the civil society and others key players is encouraged.

In addition, support to twinning can be contemplated as appropriate.

1.5.4. Expected results and indicators

Expected results include:

- the provision of improved curricula, wider selection of courses and training opportunities, (indicators: number and quality of courses);
- Enhanced management skills, (indicator: quality of management techniques introduced);

- Increase number of exchanges for students and academic staff, (indicator: number of students/staff members involved);
- Better access to information sources, joint study programmes with EU higher education institutes and visible national reform, (indicators: number of institutions involved; number of external partners involved).

As a result of joint projects implemented by Moldovan and EU institutions, in addition to the defined project results, the level of understanding and knowledge regarding each others' operating environment will improve. The degree of decentralisation, as well as the degree of adherence to the Bologna objectives, assessed through appropriate indicators, will also provide a measure of success of this programme.

1.5.5 Specific risks and assumptions

TEMPUS programme operates on the basis of both, a bottom-up approach on institutional level as well as a top-down approach on national level. The number of applications and their quality will very much depend on the input from the applicant institutions for the former and the active involvement of the Ministry of Education for the latter. It is assumed that the Moldovan higher education institutions and authorities will have an interest and sufficient institutional and organisational capacity to participate in the implementation of specific projects.

2. SUPPORT TO PRIVATE SECTOR DEVELOPMENT - ASSISTANCE FOR ECONOMIC DEVELOPMENT

Support should be given to the fulfilment of the objectives and implementation of actions foreseen in the sections of the Action Plan relevant for this area of cooperation, on the basis of priorities set jointly by the EU and Moldova.

2.1 Export/investment promotion

2.1.1 Background and justification

In the EG-PRSP, Moldova focuses on the creation of adequate economic and legal conditions to enhance overall economic development, in particular through the promotion of SMEs, export promotion and the promotion of investment and Foreign Direct Investment. Export promotion and Foreign Direct Investments could play a key role in helping Moldova to enhance growth and alleviate poverty, also by reducing the constraint put on the economy by the large current account deficit together with the need to repay the high foreign debt.

Moldova's trade deficit is widening and structural, as most of its products contain little value-added and export diversification is low. Since 2001, the EU has been active in promoting Moldova's exports, in particular through TACIS financing of the Moldovan Export Promotion Organisation (MEPO). The organisation has recently seen an extension of its activity, as it engaged in providing assistance to foreign investors that wish to invest in Moldova, and in general to attract Foreign Direct Investment. Moldova has signalled also its interest in the creation and continuous activity of an Enterprise Information Correspondence Centre (EICC).

2.1.2 Objectives

- to improve the international competitiveness of the Moldovan enterprise sector; to increase the number and presence of Moldovan exporting companies on regional and international markets; to strengthen agencies such as MEPO;
- to increase attractiveness of Moldova for FDI; to modernise the capacity of Moldovan companies and to attract investment, particularly in the agro-food processing sector, where Moldova's comparative advantage remains to be exploited to its full potential;
- to provide support to foreign investors and to Moldovan companies through the EICC

2.1.3 Orientations for Programme Development

The programme will support through the provision of technical assistance, training, vocational training, support to twinning and supply of equipment export promotion organisations, organisations that act in support of foreign direct investments and the EICC, building on the export-promotion work that has already been done, with the aim of increasing Moldova's international competitiveness and its ability to compete for foreign investments.

2.1.4 Expected results and indicators

The results will include a higher proportion of export-capable companies that can also offer sound investment opportunities. Improve Moldova's growth profile by increasing exports and attract FDI.

Indicators will include measures of the FDI flows and exports performance; number of enterprises recording substantial export sales; number of enterprises which attracted foreign investments; numerical indicators for the ability of Moldovan exports to penetrate EU markets and for their qualitative diversification.

2.1.5 Specific risks and assumptions

Success of this programme in terms of better performance of Moldovan enterprises will of course depend heavily on the overall business climate and Moldova attractiveness for foreign investors. Perspectives are not entirely positive from these points of views. However, this should not undermine the usefulness of this programme.

The degree of success of the programme will depend also on how corruption and other “external factors” that negatively affect development of enterprises in Moldova are properly addressed.

The implementation agencies must remain autonomous services to enterprises, in particular those privately owned. Implementation policy should be set within the broad framework of the Government strategy (such as the EG-PRSP), but should be directed by bodies representing both Government and the private sector, with the private sector voice predominant.

The Government should agree a progressive schedule to assume full financing responsibility for strategic trade and investment promotion activities in the medium term.

2.2 Support to micro – enterprises, SMEs, and small farmers in rural areas

2.2.1 Background and justification

Moldova has made some progress in improving the conditions for private sector development in the last years. In the rural areas, most of the old state enterprises have been transformed into private, often individual farms, as most of the arable land has been privatized. The EG-PRSP puts emphasis on the development of SMEs and on regional/rural development. However, several constraints have remained largely unsolved: the lack of entrepreneur abilities, technical skills, and access to key inputs including financing (investment and working capital). The main constraints to the development of SMEs are access to credit; regulatory and administrative barriers to market entry and expansion; limited access to innovation technologies; and lack of relevant skills in the job market as well as of appropriate curricula for VET.

In rural areas, government support concerning agricultural inputs and training has not yet reached the smallholders. To overcome this bottleneck, smallholders wanting to improve their living from farming in a sustainable way would need intensive assistance from advisory services (technical, legal, financial) as well as access to credit. Their entrepreneurship should be strengthened by training and expert advice. This should allow them to shift away from subsistence farming towards commercial farming. Labour outflow from the agricultural sector will need to be absorbed by the food processing sector as well as the off-farm sector.

Training and skills development are frequent components of local economic development initiatives, because it is increasingly recognised that the skills, ideas and competencies of local people are an important factor in supporting business creation, developing existing enterprises and in helping unemployed people to access jobs. Promotion of SMEs and micro-businesses implies also local partnerships between all relevant community members, employers, VET schools and local authorities. Reform of VET schools, aimed at increasing the skills of both young and adult workforces, should be seen as important for facilitating economic reform. Existing training courses for young

people and adults, current curricula and teachers' knowledge and skills should be reviewed with a view to better matching the training opportunities on offer with present and future local development needs.

The EU has been active in support of SMEs in Moldova both in the capital and in selected regions. The EU has also supported the system of vocational training in Moldova.

2.2.2 Objectives

- To stimulate the enterprise development of small and micro-entrepreneurs in particular selected regional and rural areas in a sustainable way.
- To support the development of small and medium agriculture enterprises, as well as of farmers' associations
- Supporting development activities at regional and local level in order to improve the livelihood and the environment of the population of pilot villages in areas of extreme poverty
- To promote/support the development of existing as well as the start-up of new micro-enterprises (0-5 employees) in the framework of farmers' associations and/or co-operatives by training.
- The programme should give special attention to regions with high rates of population in extreme poverty with the aim to enable the landholders to use their farm land in the most appropriate way, considering also environment impact, and to promote off and on farm activities in order to create complementary income, in particular for women
- Introduce appropriate courses of vocational training in schools; support existing institutions of VET in their attempts to reform and adapt to new market conditions/demands.

2.2.4 Orientations for Programme Development

The programme will support the Government to improve the business environment and to develop schemes for promoting enterprise. This will include a component to link with growing businesses, especially in the regions, which emerge through the work of other initiatives. Environment protection and other cross cutting issues will be given proper consideration.

The programme should address micro-and small enterprises in selected regional/rural areas in order to have a greater impact. Under a risk reduction approach the programme should include components of:

- a) Development of rural agencies or regional development agencies as appropriate, to give in particular technical advice to local business and regional administration. Improve extension and advisory services to groups/associations/ co-operatives of farmers in order to facilitate their access to credit, legal and financial advice, improved farm techniques, i.a., more respectful of the environment, and marketing in particular for women. Support to alternative systems such as credit and savings co-operatives should be developed.
- b) Small infrastructure and/or equipment for local communities (municipalities, local administrative units such as "raions") and/or co-operatives/associations/groups (e.g., in the area of water supply, small scale irrigation, in equipment sharing, leasing and purchase).
- c) On a pilot base the programme would finance through grants off-farm activities to improve income generation.
- d) Introduction of teaching related to Vocational training in schools (technical schools) reform of curricula, reform of existing institutions of Vocational training, improve

linkage with the labour market and enterprises. If appropriate VET reform can be developed through an independent project/programme.

e) Support to the network for extension and advisory services to farmers, operated by the Moldovan NGO 'ACSA', could also be considered in coordination with the WB.

2.2.3. Expected results and indicators

Improved economic conditions in rural areas. Reduction of rural poverty. Development of SMEs. Development of associations of farmers. Development of a significant and sustainable off-farm sector in the rural economy. Declining hidden unemployment in rural areas. Slower trend of rural exodus. Changes in vocational education in support of new trends in the labour market.

Indicators will include: number of SMEs and of farmers' associations; measures of regional growth; measures of degree of monetisation of rural economy; comparative unemployment figures urban-rural; number of poor families in areas/regions; number of people re-trained and of VET curricula introduced or radically modified.

2.2.5 Specific risks and assumptions

Careful selection of villages in the same area is needed in order not to disperse impact, and villagers should be inclined to fully co-operate. For agriculture enterprises and farmers' associations, proximity of water resources will be a factor influencing results, together with market access and existence of relevant infrastructure.

3. Support in addressing the social consequences of transition

Support should be given to the fulfilment of the objectives and implementation of actions foreseen in the sections of the Action Plan relevant for this area of cooperation, on the basis of priorities set jointly by the EU and Moldova.

1. 3.1 Direct assistance to vulnerable groups

3.1.1 Background and justification

The Moldovan government has committed in the National Action Plan for Human Rights (NAPHR), approved by the Parliament in 2003, to take actions on alleviating poverty among vulnerable groups, such as children, elderly, single family parents etc.. The EG-PRSP contains commitments to this effect.

The difficult economic situation drastically limits levels of food supply and childcare, and social protection of vulnerable groups. Many families chose to abandon children or elderly members of the family when they cannot provide for them. The limits imposed by the country's financial situation, has rendered the commitments to finance sheltering institutions for children and elderly almost impossible to fulfil. The goals set out in the NAPHR also cannot be reached without external support.

The EU assisted Moldova through ECHO to alleviate child poverty. After ECHO withdrew assistance in accordance with its core mandate, the FSP stepped in to address several of the aforementioned social needs through targeted budget support. FSP commitments, however, have not been fully disbursed as the programme is currently put on hold because Moldova has not met key conditionalities. Irrespective of whether the FSP will be allowed to resume disbursements, TACIS should also step in to further contribute to poverty reduction and social exclusion prevention and to meet the social needs of the vulnerable groups, while at the same time contributing to an overall reassessment of social policy in this field which, building on previous work, could maximise effectiveness given limited resources.

3.1.2 Objectives

Provide technical assistance to the government in designing and targeting assistance. Provide support in the form of grants, training and equipment to NGOs and local initiatives that provide direct assistance to vulnerable groups, including unemployed and economically inactive people, poor families, single parent's families, elderly, disabled, children and elderly in institutions, schools etc.

Increase NGOs involvement in support to the children, and the government NGOs dialogue on social issues.

Special attention to be paid to street children, one the most marginalised and excluded section of society, and to protect them from health risks, including drugs and communicable diseases.

Raising awareness about child abuse and neglect through information campaigns that reach teachers, doctors, general public.

3.1.3 Orientations for Programme Development

Assist in defining a strategy of collaborative work among Ministries to address the issue, which takes into account contribution by international donors, based on the EG-PRSP.

Support to various government structures dealing with different aspects of poverty by providing technical assistance, training, support for twinning, supply of equipment and studies of best practise, geared at improving their capacity to provide assistance while better targeting limited resources available. Support to the implementation of the relevant parts of the NAPHR.

Assistance to the central government and local authorities in rationalising existing benefits for poor families, children and elderly; assistance to central and local governments in developing community based protection measures; support to NGO projects, possibly in the form of a grant scheme, aimed at poverty alleviation. Integrate NGOs activity into government strategy to address child poverty. Options such as direct in-kind assistance to children of school age (possibly again through NGOs) could be considered as a measure to supplement cash transfers. This would also encourage school attendance.

Support to information campaigns on child rights and directed at raising awareness about child abuse and neglect.

Support to prevention services, such as support for pregnant teenagers, fatherhood initiative, family therapy, parent and children counselling, food assistance, medical assistance.

The possibility to contribute to World Bank social fund should also be examined.

3.1.4 Expected results and indicators

Reform of the system for poverty alleviation and social protection. Support to local governments for poverty related and social exclusion prevention policies. Increased dialogue between NGOs and local governments on how to address poverty. Support to poor families and single parent's families. Improvement of the living conditions for children in orphanages. Increased access to education for poor children.

Indicators will include number of laws or administrative regulations endorsed and implemented; meetings/seminars with NGOs to discuss strategy of poverty alleviation; measures of school attendance for poor children; number of elderly, women, children, affected by anaemia, malnutrition and stunted growth and measures of nutritional balance of vulnerable groups (children)

3.1.5 Specific risks and assumptions

The medium term sustainability of results of this programme will depend on an improvement of Moldova budgetary conditions and on the Moldovan government and local administrations willingness to provide more resources over the medium term to social institutions and to finance the social safety net. The current positive growth, if prolonged over the medium term, may provide additional financial resources. The government and local authorities are aware of the needs, but may still, in some cases, need to be made more sensitive to the issue. The current programme may have this effect.

List of acronyms

| | |
|----------|---|
| AP | Action Programme |
| CIS | Commonwealth of Independent States |
| CoE | Council of Europe |
| CPI | Consumer Price Index |
| CPT | Council of Europe Committee for the Prevention of Torture |
| CS | Civil Society |
| CSCE | Conference for Security and Cooperation in Europe |
| CSP | Country Strategy Paper |
| DG | Directorate General of the European Commission |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| EECCA | Eastern European Countries, the Caucasus and Central Asia |
| EG- PRSP | Enhancing Growth - Poverty Reduction Strategy Paper |
| EICC | European Information Correspondence Centre |
| EIDHR | European Initiative for Democracy and Human Rights |
| ENP AP | European Neighbourhood Policy Action Plan |
| ENP | European Neighbourhood Policy |
| EU | European Union |
| FSP | European Commission Food Security Programme |
| GDP | Gross Domestic Product |
| GRECO | Council of Europe Group of States against Corruption |
| GSP | Generalised System of Preferences |
| HDI | Human Development Index |
| HR | Human Rights |
| IBPP | Institution Building Partnership Programme |
| IBRD | International Bank for Reconstruction and Development |
| ICT | Information and Communication Technology |
| IDA | International Development Agency |
| IFC | International Finance Corporation |
| IFIs | International Financial Institutions |
| IMF | International Monetary Fund |
| INCO | International Cooperation under Framework Programme for RTD |
| IOM | International Organisation for Migration |
| IP | Indicative Programme |
| JCC | Joint Constitutional Commission |
| JHA | Justice and Home Affairs |
| MEPO | Moldova Exports Promotion Organisation |
| MFA | European Commission Macro Financial Assistance |
| MFN | Most Favoured Nation |
| MS | Member State |
| NAPHR | National Action Plan for Human Rights |
| NCU | National Coordinating Unit (Tacis) |
| NEAP | National Environment Action Plan |
| NGO | Non-Governmental Organisation |
| NIP | National Indicative Programme |
| NIS | Newly Independent States |
| ODIHR | Office for Democratic Institutions and Human Rights |
| OSCE | Organisation for Security and Cooperation in Europe |
| PACE | Parliamentary Assembly of the Council of Europe |

| | |
|--------|--|
| PCA | Partnership and Cooperation Agreement |
| PRGF | Poverty Reduction and Growth Facility |
| RTD | Research, Technological Development and Demonstration activities |
| SAC | Structural Adjustment Credit |
| SAP | Stability and Association Process |
| SEE | South East Europe |
| SIA | Special incentive arrangement |
| SME | Small and Medium Size Enterprise |
| SP | Stability Pact |
| UNDP | United Nations Development Programme |
| UNECE | United Nations Economic Commission for Europe |
| UNHCR | United Nations High Commissioner for Refugees |
| UNICEF | United Nations International Children Fund |
| USAID | US aid programme |
| USSR | Union of Soviet Socialist Republics |
| VET | Vocational and Educational Training |
| WB | World Bank |
| WTO | World Trade Organisation |

Annex I

Basic Statistics of the Republic of Moldova

| <i>MOLDOVA</i> | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|--------|--------|--------|--------|--------|
| GDP (million of constant 1995 US\$) | 1567.4 | 1514.6 | 1546.6 | 1640.5 | 1758.6 |
| GDP (million of current US\$) | 1698.7 | 1171.3 | 1288.8 | 1479.4 | 1623.8 |
| GDP growth (annual %) | -6.5 | -3.4 | 2.1 | 6.1 | 7.2 |
| GDP per capita (constant 1995 US\$) | 364.6 | 353.2 | 361.5 | 384.2 | 413.3 |
| GDP per capita, PPP (constant 1995 international \$) | 1226.6 | 1187.4 | 1183.6 | 1235.3 | 1299.6 |
| Inflation, consumer prices (annual %) | 6.6 | 45.9 | 31.3 | 9.8 | 5.1 |
| Inflation, GDP deflator (annual %) | 9.5 | 39.8 | 27.3 | 11.9 | 8.1 |
| Agriculture, value added (% of GDP) | 30.5 | 27.9 | 29.0 | 26.0 | 24.1 |
| Industry, value added (% of GDP) | 23.5 | 22.7 | 21.7 | 24.1 | 24.7 |
| Services, etc., value added (% of GDP) | 46.1 | 49.4 | 49.2 | 49.8 | 51.2 |
| Central government debt, total (% of GDP) | 82.8 | 77.9 | 73.0 | 60.9 | 56.2 |
| External debt, total (DOD, million of current US\$) | 1070.9 | 1025.0 | 1246.8 | 1235.3 | 1348.8 |
| Interest payments (% of current revenue) | 15.5 | 29.8 | 26.0 | 19.7 | 19.7 |
| Interest payments (% of total expenditure) | 13.1 | 24.0 | 21.5 | 18.4 | 16.7 |
| Current account balance (BoP, million of current US\$) | -334.7 | -67.9 | -115.1 | -81.5 | -91.8 |
| Foreign direct investment, net inflows (% of GDP) | 4.4 | 3.2 | 10.0 | 6.8 | 6.8 |
| Gross capital formation (annual % growth) | 7.3 | -19.5 | 13.3 | -8.9 | 17.6 |
| Unemployment, female (% of female labor force) | .. | 8.9 | 7.2 | 5.9 | .. |
| Unemployment, male (% of male labor force) | .. | 13.3 | 9.7 | 8.7 | .. |
| Unemployment, total (% of total labor force) | 1.9 | 11.1 | 8.5 | 7.3 | .. |
| Employment in agriculture (% of total employment) | .. | 48.9 | 50.9 | 51.0 | .. |
| Employment in industry (% of total employment) | .. | 13.7 | 13.9 | 13.9 | .. |
| Employment in services (% of total employment) | .. | 37.5 | 35.2 | 35.1 | .. |

Source: World Bank WDI 2004

| <i>MOLDOVA</i> | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|---------|---------|---------|---------|---------|
| Aid per capita (current US\$) | 9.2 | 25.0 | 28.7 | 28.7 | 33.3 |
| Population growth (annual %) | -0.3 | -0.3 | -0.2 | -0.2 | -0.4 |
| Population, million total | 4.30 | 4.29 | 4.28 | 4.27 | 4.26 |
| Birth rate, crude (per 1,000 people) | 9.7 | 9.0 | 8.7 | 8.5 | 11.2 |
| Death rate, crude (per 1,000 people) | 9.3 | 9.6 | 9.6 | 9.4 | 13.2 |
| Life expectancy at birth, total (years) | 66.5 | 67.8 | 67.5 .. | | 67.0 |
| Health expenditure, total (% of GDP) | 7.2 | 5.3 | 5.2 | 5.1 .. | |
| Rural population (% of total population) | 57.3 | 57.8 | 58.4 | 58.3 | 58.2 |
| Urban population (% of total) | 42.7 | 42.2 | 41.6 | 41.7 | 41.8 |
| School enrollment, primary (% gross) | 84.3 | 85.0 | 84.7 | 85.3 .. | |
| School enrollment, secondary (% gross) | 72.7 | 71.4 | 71.5 | 72.4 .. | |
| School enrollment, tertiary (% gross) | 30.0 | 29.5 | 28.0 | 28.7 .. | |
| Literacy rate, adult total (% of people ages 15 and above) | 98.6 | 98.7 | 98.9 | 99.0 | 99.0 |
| Imports of goods, services and income (BoP, million of current US\$) | 1332.5 | 885.2 | 1095.4 | 1212.4 | 1394.4 |
| Energy use per PPP GDP (kg of oil equivalent per constant 1995 PPP \$) | 0.8 | 0.6 | 0.6 | 0.6 .. | |
| CO2 emissions (metric tons per capita) | 2.2 | 1.5 | 1.5 .. | | .. |
| Land area (sq km) | 32910.0 | 32910.0 | 32910.0 | 32910.0 | 32910.0 |

Source: World Bank WDI 2004

Annex II

Summary table of EU assistance, 1991 – 2003

| | 1991 | 1992/ | 1993 | 1994 | 1995 | 1996/ | 97 | 1998/ | 99 | 2000/ | 01 | 2002/03 | Total |
|---|------------|---------------|----------|-------------|-------------|--------------|------------|--------------|------------|----------------------------|------------|--------------|--------------|
| Tacis Action Programme | 1,0 | 9,0* | | 10,0 | 9,0 | 13,1* | | 14,7* | | 14,8 + 1,5Res | | 25,0* | 98,1 |
| Small Projects programme | | | | | | 4,9 | | 4,8 | | 4,7 | | | 14,4 |
| Inter-State Programme | | | | | | | | | | | | | |
| Cross border Cooperation Programme | | | | | | 2,0 | 2,7 | 1,3 | 0,7 | 4,0 | 3 | 3,7 | 17,4 |
| | | | | | | | | | | | | | |
| Macro-Financial assistance | | 27,0** | | 25,0 | 20,0 | 15,0 | | | | | | 15,0 | 102,0 |
| Food Security Programme | | | | | | | | | | 5,5 | | 10,4 | 15,9 |
| Humanitarian Assistance | | | | | | | | | 3,9 | 0,8 | 0,8 | | 5,5 |
| Total | 1,0 | 36,0 | 0 | 35,0 | 29,0 | 35,0 | 2,7 | 20,8 | 4,6 | 31,3 | 3,8 | 54,1 | 253,3 |

* Financial planning is biannual

** Grant

ANNEX III

DRAFT List of Headings of the Moldovan Action Plan

New partnership perspectives

Priorities for Action

2.1. Political dialogue and reform

Democracy and the Rule of law

Human rights and fundamental freedoms

Co-operation on foreign and security policy, conflict prevention and crisis management

Regional cooperation

2.2. Co-operation for the settlement of the Transnistria conflict

2.3 Economic and social reform and development

Improve Welfare

Sustain growth, consolidate public finance, and address the issue of public debt

Functioning Market Economy

Regional and rural development

Employment and social policy

Sustainable development

2.4 Trade-related issues, market and regulatory reform

2.4.1 Movement of Goods

Trade Relations

Customs

Standards, technical regulations and conformity assessment (EU harmonised areas)

Elimination of restrictions and streamlined administration (EU non-harmonised areas)

Sanitary and phytosanitary issues

2.4.2 Right of establishment and Company Law

Services

2.4.3 Movement of capital and current payments

2.4.4 Movement of persons, including movement of workers and co-ordination of social security

2.4.5 Other key areas

Taxation
Competition policy
Intellectual and industrial property rights
Public procurement
Statistics
Financial Control and related matters
Enterprise policy

2.5. Cooperation in Justice and Home Affairs

Migration issues (legal and illegal migration, readmission, visa, asylum)
Border management
Fight against organised crime (including trafficking in human beings)
Drugs
Money laundering financial and economic crime
Police and judicial co-operation

2.6. Transport, energy, telecommunications, environment, and Research, development and innovation

Transport
Energy
Information Society
Environment
Research, development and innovation

2.7. People-to-people contacts

Education, training and youth
Culture and audio-visual issues
Civil society co-operation
Cross-border and regional level co-operation
Public health

