



EVALUATION OF TACIS COUNTRY STRATEGY IN MOLDOVA

Final Report

Volume I – Executive Summary and Main Text

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MAIN ABBREVIATIONS AND ACRONYMS

AP	Action Program
ARA	Agency for the Restructuring of Agriculture
ARIA	Agency for Restructuring and Industrial Assistance
BCM	Business Center of Moldova
CIS	Confederation of Independent States
EBRD	European Bank for Reconstruction and Development
EES	European Expertise Service
EU	European Union
FDI	Foreign Direct Investment
GTZ	German technical cooperation agency
IDA	International Development Association (World Bank Group, soft credits window)
IFC	International Finance Corporation (World Bank Group)
IFI	International financial institutions
IMF	International Monetary Fund
IP	Indicative Program
LC	Local Consultant
LTE	Long Term Expert (expatriate)
MEPO	Moldovan Export Promotion Organization
NIS	Newly Independent States
PCA	Partnership and Cooperation Agreement
PSD	Private sector development
SCA	Savings & Credit Associations
SME	Small and medium enterprises
SPP	Small Projects Program
STE	Short Term Expert (expatriate)
TA	Technical Assistance
TOR	Terms of Reference
UNDP	United Nations Development Program
USAID	US Agency for International Development
WTO	World Trade Organization

SYMBOLS

-	Nihil
..	Not available
n.a.	Not applicable

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EXECUTIVE SUMMARY

1. OVERVIEW OF THE TACIS PROGRAM IN MOLDOVA

1.1 Introduction

- During the 1995-99 period, Tacis allocations to Moldova reached an estimated € 56.5 million, of which: (i) € 34.2 million for projects included in the Action Programs (the so called “mainstream projects”), and (ii) € 22.3 million for initiatives financed under various facilities and interstate programs (Tempus, European Expertise Service – EES, Cross Border Cooperation – CBC, Bangkok facility, etc.).
- Three Action Programs (AP) were approved during the period under consideration, each covering one or two years. Annual allocations under the AP were in the order of € 10 million.
- Agriculture, private sector development, and public administration & social sectors reform were the three main areas of intervention, with allocations ranging between € 12 million and € 20 million. The overall trend in allocations is shown in the table below.
- Some 40 mainstream projects were implemented or planned over the 1995-99 period. These were complemented by some 100 initiatives financed under various facilities. The average mainstream project size almost doubled between the 1995 Action Program (€ 0.8 million per project) and the 1998-99 Action Program (€ 1.5 million/project).

Tacis Allocations by Sector - 1995-99 (€ million)

Sectors	Action Program 1995	Action Program 1996/97	Action Program 1998/99	TOTAL
Private Sector Development	1.5	4.5	2.8	8.8
Public Administration and Social Sectors	2.0	4.2	4.5	10.8
Agriculture	2.5	3.7	4.1	10.3
Energy	1.5	0.0	0.0	1.5
Transport	0.0	0.0	2.8	2.8
Tempus + Small Projects Program	1.0	4.9	4.8	10.7
Other/Reserve	0.5	0.6	0.5	1.6
TOTAL ACTION PROGRAMS	9.0	18.0	19.5	46.5
Environment – Interstate Facility	..	..	..	2.0
Energy – Interstate Facility	..	..	..	2.5
Transport – Interstate Facility	..	..	..	0.5
Cross Border Cooperation	..	..	..	5.0
TOTAL FACILITIES	..	..	..	10.0
GRAND TOTAL	..	..	..	56.5

Source: DG External Relations and estimates from various sources

1.2 Main Areas of Activities

- Total resources allocated to **agriculture** amounted to some € 12.1 million, of which € 11.3 million for mainstream projects included in the Action Programs and € 0.8 million for initiatives financed under various facilities. Tacis initiatives in agriculture may be grouped into 5 policy areas, namely:

Land Privatization: assistance was limited to the dissemination of results of an earlier pilot privatization project, with no further direct involvement in land distribution activities;

Institutional Strengthening & Policy Advice: activities were primarily aimed at strengthening the Ministry of Agriculture and the Agency for the Restructuring of Agriculture (ARA), a newly established entity supposed to foster the reform process;

Development of Support Structures and Services: Tacis was active in a number of areas (collection and dissemination of information on prices of agricultural products, enhancement of seed quality, introduction of land valuation techniques, etc.). New initiatives in the areas of extension services and agricultural machinery (“machinery rings”) are in the pipeline;

Rural Finance: Tacis assisted (both directly and through the Bangkok facility) the development of rural credit capabilities within Moldova’s leading bank, *Agroindbank*;

Promotion of Non Farm Activities: this is an area where Tacis (unlike other donors) was scarcely present. Attempts to develop non farm activities in rural areas mainly consisted of a couple of initiatives financed under the Partnership and Cooperation Program.

- Resources allocated by Tacis to **private sector development** are estimated at € 12 million, of which € 8.5 million for mainstream projects included in the Action Programs and € 3.5 million provided through various facilities. Tacis initiatives in private sector development may be grouped into 5 policy areas, namely:

Enterprise Restructuring: this was the main area of intervention, with initiatives aimed at (i) directly supporting the restructuring of selected enterprises, and (ii) strengthening the Agency for Restructuring and Industrial Assistance (ARIA), selected as the focal point for enterprise restructuring efforts;

Enterprise Privatization: as a follow up of an earlier initiative, Tacis supported the (troubled) second privatization wave, through assistance to specific privatization transactions and support to the Privatization Department;

SME Development: Tacis was only marginally involved in this area, already covered by other donors and by financial institutions (e.g. micro-lending). Assistance mainly consisted in the provision of additional support to Business Center of Moldova, established under an earlier Tacis project;

Export Promotion: this is an area of growing importance for Tacis. Spearheaded by a series of EES projects, a large mainstream initiative aimed at supporting the Moldovan Export Promotion Organization is presently ongoing;

Basic Legal and Institutional Framework: this is another area where Tacis has played a limited role (only a couple of EES initiatives), leaving the leading role to other donors (GTZ, USAID).

- Total resources allocated by Tacis to **public administration and social sectors** are estimated at € 19.6 million, of which 12 million under the Action Programs and € 7.6 million through the facilities (most notably, Tempus). Tacis activities may be grouped into 6 policy areas, namely:

Restructuring of the State Machinery and Regional Administration: at the central level Tacis assisted in tackling the two interrelated issues of consolidation of ministerial structures and of civil service reform. A project aimed at supporting the recent regional administration reform was included in the last Action Program and is due to start soon;

Support to Macroeconomic Management: Tacis played a limited direct role in this area (covered by other donors), providing some assistance to the customs and in the collection and dissemination of macroeconomic data;

Capacity Building in Foreign Relations: this is a niche area of intervention for Tacis, that through a series of EES projects assisted Moldova in WTO accession, preparation of the Partnership and Cooperation Agreement (PCA), aid coordination, and other foreign trade related matters. These efforts were later complemented by a mainstream project to support the implementation of the PCA;

University Education: this is one of the main recipients of Tacis assistance, which involved both (i) mainstream projects in the area of economics and management sciences and (ii) an extensive use of the Tempus facility (with some 20 initiatives aimed at fostering cooperation between EU and Moldovan universities);

Vocational Training: after some small initiatives aimed at understanding and forecasting labor market requirements, Tacis implemented a mainstream project assisting the Ministry of Education in the formulation of a comprehensive reform of the vocational training system;

Welfare State Reform: Tacis provided support (policy advice and institutional strengthening activities) to both the Ministry of Labor (pension and social security reform) and the Ministry of Health (primary health care reform). Further assistance in the area of medical insurance reform was included in the last Action Program and is due to be implemented soon.

- In the period under consideration, the **energy, transport and environment** sectors were residual areas of intervention for Tacis, with total allocations of less than € 8 million. The main initiatives include: the provision of policy advice to the Ministry of Energy, the rehabilitation of a bridge on the Nistru river, the establishment of a regional environmental center, and the assistance to the privatization of Moldovan Railways (not yet implemented).

2. SUMMARY OF SECTORAL EVALUATIONS

2.1 Agriculture

Prioritization of needs and allocation of resources: Tacis initiatives in agriculture do not display a high degree of concentration, with a limited consistency overtime. This is partly the result of the evolving perceptions regarding the land reform process.

- **Appropriateness of counterparts:** the selection of counterparts was generally appropriate. The main exception is ARA, selected as a counterpart to by-pass the conservative Ministry of Agriculture. While shared by other donors, in retrospect this decision proved counterproductive, because ARA never managed to play a significant role in the land reform process. Instead, Tacis found itself compelled to patch up again a decent working relationship with the Ministry of Agriculture.
- **Coordination with other donors:** coordination with other donors was usually good. There was constant exchange of information and instances of concrete collaboration are numerous. The only significant example of lack of cooperation is the Orhei Pilot Privatization project, whose philosophy was at odds with the approach adopted by a parallel USAID initiative (and later endorsed by the Moldovan Government).
- **Political endorsement:** Tacis inevitably suffered from the stop-and-go nature of the land reform process, but this did not impact too negatively on many projects. The Orhei Pilot Privatization project did not enjoy the same political clout as the parallel USAID project, strongly supported by US representatives in the country.
- **Timing and sequencing of actions:** the timing and sequencing of actions was generally appropriate with a couple of exceptions (initiatives in agricultural marketing were a bit ahead of time, actions in seeds quality were, on the contrary, too late).
- **Effectiveness:** the picture is mixed. Good results were achieved in agricultural credit, introduction of land valuation techniques, and establishment of sectoral associations. On the other hand Tacis had only a marginal influence on the overall agricultural reform process.
- **Impact:** some impact is already visible in the case of some small projects or specific project components, especially those with a clear “business orientation” (e.g. agricultural credit). In other cases, impact is much more limited, if not entirely absent (quality of seeds, land privatization, etc).
- **Sustainability:** results achieved by commercially-oriented initiatives proved sustainable whereas projects

with a prevailing institutional strengthening and/or policy advice orientation are much more problematic. The financial self-sustainability of organizations established by Tacis projects is doubtful.

2.2 Private Sector Development

- **Prioritization of needs and allocation of resources:** the heavy emphasis placed on enterprise restructuring was in line with the needs of the industrial sector. Similar considerations apply to Tacis activities in export promotion (large trade deficit and need for reorienting the directions of trade) and in large scale privatization (need to attract foreign investment and expertise). Also the “negative priority” attached to SME development appears broadly adequate, as the sector was covered by other donors.
- **Appropriateness of counterparts:** the selection of counterparts was usually appropriate, with only one significant exception (a holding structure little interested in privatization, which would have eliminated its *raison d’être*). Some doubts are also raised by the somewhat dirigistic traits of the newly established Moldovan Export Promotion Organization (but the project is still ongoing and no definite conclusion can be reached).
- **Coordination with other donors:** in general, coordination with other donors was fairly good and a workable division of labor was found. Only the projects in privatization and some facilities faced significant competition from similar initiatives financed by other donors (USAID and World Bank).
- **Political endorsement:** Tacis activities enjoyed a fairly strong political endorsement, as the prioritization of needs substantially coincided with the prevailing views among Moldovan authorities. The only (but significant) exception was in the field of privatization, which was never wholeheartedly supported by the Parliament.
- **Timing and sequencing of actions:** Tacis activities were timely conceived and implemented, with the right sequencing of actions. In privatization, Tacis was swift in seizing the window of opportunity opened by the new reformist-oriented Government in 1998 (the privatization drive was later frustrated by changes in the political arena, but the “time to market” was good).
- **Effectiveness:** activities directly aimed at enterprise restructuring were broadly effective, with outstanding results in some projects. On the contrary, tangible achievements in privatization initiatives were very limited.
- **Impact:** mixed picture. On the one hand, enterprise restructuring activities often did improve the situation at the company level and, as a result, also contributed to attract some investment from EU partners. On the other hand, activities in privatization failed to have any appreciable impact.
- **Sustainability:** the results achieved in enterprise restructuring generally appear sustainable. The sustainability of institution building efforts (namely, with the Agency for Restructuring and Industrial Assistance) with remains to be seen.

2.3 Public Administration & Social Sectors Reform

- **Prioritization of needs and allocation of resources:** the prioritization of activities was broadly appropriate, but the importance attached to higher education in economics appears somewhat overstated. Tacis found a highly relevant “niche” area of intervention in foreign relations assistance activities (WTO accession, aid management, PCA implementation). Tacis rightly avoided getting involved in the general education reform process, for which there were limited chances of success.
- **Appropriateness of counterparts:** the selection of partner organizations was usually appropriate, but with some exceptions (namely: activities in public administration reform targeted at technical bodies, with little political clout).
- **Coordination with other donors:** coordination with other donors was generally good at the macro level, and overlapping of activities was usually avoided. However, some significant differences of views did arise

(notably with the World Bank) when it came to the specific contents of the reforms proposed.

- **Political endorsement:** whenever reaching project objectives was not contingent upon the availability of complementary financing, Tacis projects enjoyed significant support. The attitude displayed by partner organizations was much less supportive whenever the reforms envisaged involved the deployment of financial means that Tacis was not in the position to provide.
- **Timing and sequencing of actions:** political instability created serious problems to some mainstream initiatives, while small and flexible EES projects usually managed to be more attuned with the prevailing political mood of the moment. Also, in some cases it proved difficult to coordinate the sequencing of Tacis actions with that of World Bank projects, which generated practical difficulties and different approaches.
- **Effectiveness:** Tacis was effective in activities with a highly technical content (aid coordination projects, WTO assistance, etc.) and in the education sector. In other areas (reform of the state machinery, pension reform, etc.) only limited results were achieved.
- **Impact:** some impact is already visible in the case of small projects and, to a lesser extent, in the university education sector. Impact is not visible but still possible in social sectors (where actual implementation of reforms is now financed by the World Bank), whereas activities in public administration reform (civil service, consolidation of ministries) seem unlikely to have any lasting effect.
- **Sustainability:** all the results achieved are “structurally” exposed to risk of major policy reversals. Also, the sustainability of institution strengthening actions is largely contingent upon the trained civil servants remaining in the same position, an event that is paradoxically made less likely by the training extended by Tacis projects to these individuals.

3. MAIN FINDINGS AND RECOMMENDATIONS

3.1 Main Findings

- The overall **prioritization of needs and allocation of resources** were broadly appropriate, although resources allocated to higher education in economics and to certain areas of public administration reform were probably on the high side. The “negative priorities” (SME development, overall education reform) were also properly selected.
- The **selection of counterparts** was generally appropriate, especially when the counterparts were well established bodies. In the case of newly-established organizations, results were positive if their mandate was predominantly “technical” (as in the case of ARIA, involved in enterprise restructuring), less so when it was political (as in the case of ARA, supposed to be driving force for land reform).
- Some projects suffered from limited **political endorsement**, with the Parliament not always in line with what agreed upon with the Government. Overtime, Moldovan authorities have become increasingly disenchanted with technical assistance activities (not only Tacis’) and this is sometimes reflected in limited real political endorsement.
- **Donor coordination** was broadly achieved at the “macro” level, but this did not necessarily imply coincidence of views regarding specific issues. The problem of better coordination with World Bank initiatives emerged in several cases.
- **Effectiveness** and **impact** were reasonably good in the case of highly specific interventions, especially if with a clear business orientation (agricultural credit, restructuring of selected enterprises, etc.). Actions aimed at supporting controversial policy moves (e.g. large scale privatization) or major policy reforms (pension system, health care) were much less successful.
- **Sustainability** is good for projects targeted at enterprises and other “end users”. The sustainability of institutional strengthening efforts appears limited and/or constantly exposed to the tangible risk of policy reversals.

- Some of the most successful initiatives were small EES projects launched in areas not even mentioned in the main Tacis programming documents. The ***presence in the country*** of proactive Tacis representatives was instrumental in spotting these opportunities (as well as in correcting *in itinere* some weaknesses in the terms of reference of some projects)
- The ***project management cycle*** did not display significant differences from what already noted in other CIS countries, with some extreme cases both positive (quick reaction to some emerging opportunities) and negative (some poorly identified projects). The continuous changes in personnel both at Tacis headquarters (up to four task managers per project) and at the Monitoring Unit certainly did not help effective implementation.

3.2 Recommendations – Overall Strategy

- ***Volume of allocations:*** the current level of allocations (€ 10-12 million per year) appears broadly appropriate, also taking into account the limited absorptive capacity of some recipients. However, higher allocations could be justified if classical TA projects could be associated with innovative initiatives involving the use of “investment money”.
- ***Better coordination with the World Bank:*** in order to avoid inconsistencies in operational activities and disagreements on substantive matters, the Commission should try to stop fielding Tacis projects until the parallel World Bank operations are already on the ground and their policy options fully clarified.
- ***Continued Need for a Strong In-Country Presence:*** some of the most successful initiatives were identified by Tacis representatives based in Moldova, who were quick in exploiting new opportunities for intervention. A reinforced in-country presence of EU structures should reduce problems of political endorsement and of coordination with other donors and international financial institutions.
- ***Consider Parliament as Counterpart in Policy Reform:*** given the prevailing institutional setting (with a relatively weak executive branch compared with the Parliament), Tacis policy reform projects should consider involving the Parliament in the process.

3.3 Recommendations – Sectoral Considerations

- ***SME Development:*** Tacis planners should take advantage of the possibilities offered by the new Tacis financial regulations to include in future program operationally-oriented initiatives aimed at SME. These could include the financing of small credit or equity financing facilities, the financing of the existing credit associations or of other mutual financial institutions, and the establishment of matching grant mechanisms for consulting services.
- ***Reduced Emphasis on Agriculture in the Traditional Sense:*** the removal of agriculture from the priority areas in the 2000-2003 Indicative Program, and the parallel inclusion of rural development as a cross cutting theme, is appropriate. On the one hand, agriculture must be regarded as a sector structurally in decline. On the other, the theme of promoting development in the rural areas must be kept continuously in mind and figure prominently in all future areas of intervention.
- ***Attention to the Environmental Aspects of Land Reform:*** the land reform process has led to environmental problems (water pollution in villages, soil erosion) so far only marginally considered within the framework of environmentally-oriented initiatives. However, these problems could also have important negative effects on agricultural production. As such, they deserve being considered in future initiatives in agriculture.
- ***From Enterprise Restructuring to Industrial Cooperation:*** Moldovan enterprises start having highly sector-specific (often product specific) needs that could be addressed through an enhanced cooperation with western counterparts. Tacis should explore the possibility of launching some initiatives acting as catalysts for industrial cooperation between Moldovan enterprises and their European counterparts.
- ***Discontinue Direct Assistance to Privatization:*** taking into account the prevailing political mood (as well as

the risk of potential conflicts of interest for Tacis contractors), Tacis should refrain from further direct interventions in this area. Organizations such as the IFC and the EBRD appear to be better equipped for the task.

- **Continued Prudence in Education:** Tacis should maintain its prudent stance, avoiding the risk of being involved in the design of some general education reform, for which financial resources are not available.

3.4 Recommendations – Horizontal Issues

- **Avoid Excessively Large Projects:** large projects sometimes suffered from the problem of multiple objectives, multiple counterparts, and somewhat loosely related components. The tendency towards an ever increasing size of mainstream initiatives should be resisted, to avoid excessively complex project configurations.
- **The Risks of the Financial Self-Sustainability:** lately, the financial self-sustainability of Tacis-financed institutions has become a major concern for Tacis planners. This may pose serious problems to projects involved in the provision of basic public goods (in the economic sense). Tacis may well decide not to enter (or to discontinue activities in) areas such as the dissemination of information on prices or agricultural techniques, but it would be illusory to expect these initiatives to become financially viable.
- **Streamlined Management of Cross Border Cooperation Initiatives:** There is a general consensus among Moldovan authorities and donors that increased regional cooperation and policy dialogue is of paramount importance for the country. However, some organizational aspects of the Cross Border Cooperation program appear to hinder the smooth functioning of the facility. The streamlining of existing procedures could certainly lead to a spur of new initiatives.

MAIN TEXT

1. INTRODUCTION

1.1 Objectives

The objective of this work is to provide an independent assessment of the Tacis country strategy in Moldova. The country's political and economic background, the overall program objectives and activities, and the results achieved in the key areas of intervention are analyzed with a view to provide recommendations for a possible re-orientation of program objectives and focus, of resource allocation patterns and of sectoral policies in the future.

As detailed in the Terms of Reference (TOR), the evaluation mainly focuses on the analysis of : “i) the relevance of the Tacis sectoral and country strategy, ii) the impact on the reform process and sectoral reforms, and iii) the effectiveness of Tacis approach, programming and implementation mechanisms”. This means that this evaluation exercise is carried out at a “higher” logical level than “ordinary” sectoral evaluations. In particular, the study has devoted substantial attention to the crucial issues of i) timeliness and sequencing of actions, ii) coordination with other donors, and iii) political endorsement of Tacis efforts.

1.2 Scope of Work

This evaluation exercise is mainly concerned with Tacis activities included in the 1995 and 1996/97 Actions Programs (AP) and with the other initiatives implemented through various facilities during the same years. However, as requested by the TOR, the 1998/99 Action Program was also partly taken into consideration, mainly with reference to issues of relevance. In addition, in order to gain a more comprehensive understanding of the evolving nature of the Tacis strategy in Moldova, some “key” initiatives included in previous Action Programs were analyzed. All in all, the exercise covered technical assistance initiatives with a total budget of some € 56.5 million, subdivided in some 40 projects included in the Action Programs (the so called “mainstream projects”) and about 100 other initiatives undertaken within the framework of various facilities, implemented or budgeted over a 5-year period

This evaluation concentrates on Tacis key “sectors” or “areas of intervention”, namely:

- agriculture,
- private sector development, and
- public administration and social sectors¹.

Other sectors (such as energy, transport, etc.) were only marginally included in Tacis activities in Moldova and therefore are only briefly mentioned in this study.

As explicitly requested by the TOR, the initiatives implemented within the framework of the Small Project Programs (SPP) are also analyzed in connection with the relevant sectoral program. In particular, the following SPP initiatives implemented in Moldova are addressed here:

¹ In Tacis programming documents the sectors (or areas of intervention) are labeled in a different (and, indeed, somewhat misleading) way. In this study “agriculture” replaces the longer expression “agriculture and food policy”, “private sector development” is used instead of “enterprise restructuring” (which is a more specific terminology), and “public administration and social sectors” replaces the rather obscure “human resources development”.

- the Productivity Initiative Program (PIP), the European Senior Services Network (ESSN) program, and the Bangkok Facility in connection with the relevant private sector development strategy;
- the City Twinning and the Customs and Statistics programs in connection with public administration reform;
- Tempus in connection with the education system reform;
- the Cross Border Cooperation (CBC), the Interstate Program, and the European Expertise Service (EES) in connection with all the concerned sectors.

1.3 Work Plan

Phase I - Desk Study. The first phase consisted in: i) the collection and analysis of relevant Tacis and EU documents at the program level (Partnership and Cooperation Agreement, Indicative Programs, Action Programs), ii) the review of activities carried out by other donors and international organizations, iii) the collection and review of reports prepared by the Tacis Monitoring Unit on projects implemented or under implementation in Moldova. These elements were complemented by a review of political and economic developments in the country since independence, to place the analysis of Tacis' and other donors' activities in the proper context. This phase also involved some meetings with relevant EU staff in Bruxelles to identify relevant issues and to select the projects to be analyzed in detail during the subsequent phase. The results of this first phase were included in a report submitted to Tacis in February 2000.

Phase II - Field Work. The second phase consisted *inter alia* in two field visits to Moldova. The projects selected for detailed analysis were reviewed based on interviews with contractors, partner organizations and/or ultimate beneficiaries. In parallel, interviews were arranged with all the relevant Tacis counterparts in Moldova (the EU Delegation, the Coordinating Unit, the Monitoring Unit), with other relevant interlocutors (donors, IFI, national and local authorities, local experts, representatives of NGO), to improve the understanding of Tacis activities in the broader context. All in all some 80 meetings were held, including a dozen visits to enterprises or to rural areas. The report for the second phase, with the profiles of all the initiatives analyzed in detail and a preliminary overall assessment, was submitted in June 2000. This report was discussed with relevant EU counterparts in Bruxelles in July 2000.

Phase III - Synthesis. The third phase was devoted to the preparation of the final report based on results from the previous phases and on the comments formulated by EU counterparts. In a few cases additional information was requested to contractors or partner organizations and, in general, an effort was made to update the information on the general political and economic situation. A draft final report was submitted to Tacis in early October 2000 and discussed with relevant EU counterparts in Bruxelles at the end of November. The final report was finalized immediately afterwards.

1.4 Methodology

Evaluation Criteria. The study makes reference to a fairly standard set of five evaluation criteria, namely:

- relevance: indicating whether program/project objectives were in line with the needs and priorities at the time they were conceived and implemented;
- effectiveness: indicating the ability to reach the planned project/program objectives and not simply the delivery of given outputs or the implementation of certain activities;
- efficiency: describing the relationship between resources used and results achieved (cost-effectiveness is also used as a synonym);
- sustainability: indicating the viability of results after project completion, the financial self-sustainability of Tacis-assisted initiatives being only one of the aspects to be considered;
- impact: indicating the ability to contribute to the attainment of the program/project “wider objectives”, as well as any positive/negative side effects on the external environment.

A more elaborate presentation of the above criteria, together with some comments regarding their applicability in the context of this evaluation, is provided in Annex A.

In the case of the present study, three points must be highlighted:

- the analysis of relevance, of particular importance in the case of a country strategy evaluation, was further articulated in five sub-criteria, namely: i) prioritization of needs and allocation of resources, ii) appropriateness of counterparts, iii) coordination with other donors and international financial institutions, iv) political endorsement, and v) timing and sequencing of actions;
- issues of efficiency were only marginally mentioned in the TOR, as they are inherently of limited importance in the case of country strategy evaluations. This is particularly the case of a country like Moldova, where the limited size of the aid program leaves little scope for deriving meaningful implications from the comparison of the cost-effectiveness of projects with similar aims but implemented in different ways;
- in the case of impact, the analysis had to take into account the widely different nature of activities covered by the study, with the adoption of some sub-criteria, namely: i) for policy and legal advice projects, impact was measured by the degree of internalization of project results by the recipient institution and/or by the degree of compliance with existing standards; ii) in the case of institution building activities, impact was assessed against improvements in the effectiveness and efficiency in the beneficiary organization; iii) in the case of business promotion activities (in banking, enterprise restructuring, etc.), reference was made to the relevant economic and financial indicators (change in sales and/or profits, change in the volume of credit to farmers, etc.); finally, iv) in the case of all types of projects, an attempt was also made to assess the change in the attitudes and skills of the individuals involved.

Evaluation Tools. The extremely diverse nature of the projects covered by the evaluation (from institution building in pension reform, to the provision of direct assistance to manufacturing companies in specific functional areas, to the provision of assistance in the drafting of pieces of legislation) inevitably limited the use of standardized evaluation tools. Checklists were prepared for interviews with the companies assisted by enterprise restructuring projects and for the service cooperatives established by a land privatization project, the only two fields where the size of the target populations (about 15 enterprises and 7 cooperatives) allowed for some systematic collection of information. In the case of other projects, a more eclectic approach had to be adopted, using as main guidance the "analytical grid" underlying the standardized format adopted for the project profiles.

Projects Analyzed in Detail. While the focus of the analysis is at the country level, fact finding activities were largely conducted at the project level. In particular, nine mainstream projects were selected for a detailed analysis during fieldwork. The list of the projects to be analyzed in depth was firmed up at the end of Phase I, in agreement with the Task Manager, and includes:

- in agriculture: Orhei Pilot Privatization, Support to ARA, Agricultural Marketing²;
- in private sector development: Support to Privatization I, Support to Privatization II, Support to ARIA II;
- in public administration and social sectors: Support to Public Administration Reform, Support to Health Reform, Support to Social Security Reform.

As mentioned above, the projects reviewed during field missions also include two initiatives included in Action Programs not explicitly covered by the TOR for this study, namely: the Orhei Pilot Privatization project and the Privatization I project. The Orhei Pilot Privatization project was included in the analysis because: i) it was highly visible, ii) the Tacis approach was different from the one supported by other donors, and iii) a previous evaluation of Tacis activities took place when the project had just started³, with limited possibility of assessing its effectiveness and impact. The Privatization I project was retained for analysis in this study because of its relations with a subsequent initiative in privatization.

1.5 Organization of the Study

This report consists of two volumes, namely

- Volume I - Main Text, containing the overall description and evaluation of the Tacis country strategy in Moldova and the recommendations deriving from such analysis;
- Volume II - Project Profiles, containing the detailed description and evaluation of the nine projects analyzed in detail during fieldwork.

The remainder of Volume I is organized as follows:

- Part I – Background, provides an overall description of the political and economic developments in Moldova and a general description of Tacis activities in the country;
- Part II – Evaluation, is devoted to the detailed evaluation of Tacis activities in the main

² Throughout this report, we make reference to somewhat simplified project titles compared to the official ones (often exceedingly long) used in Tacis documents.

³ A. Tsantis, G. Mergos, *Moldova – Country Assistance Review 1991-1995*, October 1996.

- policy areas;
- finally, Part III – Conclusions, summarizes the main findings and offers a series of recommendations for future action.

PART I
BACKGROUND

2. HISTORICAL SETTING AND POLITICAL DEVELOPMENTS

2.1 Historical Setting

The Early Days. In the 14th century Moldova was an independent Romanian principality broadly stretching from the Carpathian Mountains to the Nistru River (Dniestr in Russian). Early in the 16th century Moldova succumbed to the Ottomans and became a tributary state of the Turkish empire for the ensuing 300 years. First the Treaty of Iasi (1792) and then the Treaty of Bucharest (1812) forced the Ottoman Empire to cede all of its holdings east of, respectively, the Nistru and the Prut rivers to the Russian Empire. The Russians named this newly acquired region Bessarabia. Encouraged by the new rulers, Bulgarian and Turkic-speaking Christian (the Gagauz) communities, escaping persecution by the Turks, settled in the region, together with some German farmers. The Moldovan territory west of the Prut River remained united with Walachia laying the foundations of modern Romania. Bessarabia remained under Russian control until the end of WWI, with the exception of the period between 1856 (end of the Crimean War) and 1878, when most of the region fell temporarily under Romanian control.

During the Bolshevik Revolution, political leaders in Bessarabia established a National Council (the so-called *Sfatul Tarii*), which first declared independence within the framework of a loose federation with Russia and then (in 1918) declared independence from Russia and reunion with Romania. The Soviet Union never recognized the cession of this territory. In 1924 the Soviet government established the Moldovan Autonomous *oblast* on land east of the Nistru River, part of the Ukrainian SSR. A few months later, the *oblast* was “upgraded” to the status of an autonomous republic, the Moldavian ASSR, whose population was, however, only 30% ethnic Romanian. In 1929 the capital was moved from Balta (in present-day Ukraine) to Tiraspol.

The Soviet Period. In June 1940, Romanian-held Bessarabia was occupied by Soviet forces as a consequence of the Nazi-Soviet pact. The Soviet government decided to create the Moldavian Soviet Socialist Republic (Moldavian SSR), with its capital at Chisinau (Kishinëv, in Russian). The new entity resulted from the joining of most of the re-acquired Bessarabia with a portion of the Moldavian ASSR, while the rest of the latter was eventually returned to Ukraine. In particular, part of the far northern Moldavian ASSR, northern Bukovina, and southern Bessarabia (bordering on the Black Sea) were incorporated into the Ukrainian SSR, thus leaving Moldova landlocked. When German and Romanian troops attacked the Soviet Union all these areas and part of the Ukrainian territory were annexed to Romania. In August 1944, Soviet forces reoccupied the region and the previous administrative structure was restored.

With the Soviets back in power, ethnic Russians and Ukrainians were encouraged to migrate to Moldova, especially to Transnistria. Top political and academic positions were preferably given to members of non-Romanian ethnic groups. This policy fostered resentment and rebellion among ethnic Romanians, which resulted in killings and mass deportations during the 1950s. It was only in the late Gorbachev era that Moldovan political groups gained official recognition and “Moldavian-Romanian” was designated as the Republic’s official language. However, this caused growing opposition from other ethnic groups, especially the Slavic and Turkic-speaking minorities in Transnistria and Gagauzia.

2.2 Independence and Subsequent Political Developments

The Independence. The nationalist government that took over after the first democratic elections in 1990 did not please ethnic minorities who were afraid of possible reunion with Romania. In August 1990 the Gagauz minority declared a separate "Gagauz Republic" (*Gagauz-Yeri*) in the southern area around the city of Comrat. In September of the same year, the Slavs on the east bank of the Nistru River proclaimed their "Dniestr Moldova Republic" (Transnistria), with its capital in Tiraspol. Armed Moldovan nationalist volunteers then moved into Transnistria, with ensuing clashes with local militias. Widespread violence was temporarily avoided by the intervention of the Russian Army.

In 1991, following the attempted coup in Moscow, Moldova declared its independence and was officially recognized by the EU. Later that year, the two separatist republics decided to hold their presidential elections. This, compounded with the official dissolution of the Soviet Union, led to severe ethnic tensions which eventually erupted into an open armed conflict between Moldovan and Russian-supported forces in Transnistria. A ceasefire was eventually reached in July 1992. After new elections in 1994, the hard-line nationalists lost their majority in the Moldovan Parliament. Moldova then became a member of the CIS and ratified a new constitution providing for substantial autonomy to Transnistria and Gagauzia. However, Russian troops were not withdrawn from Transnistria, that has remained *de facto* out of the control of the central government in Chisinau.

Box 2.1 Ethnic Diversity and the Language Issue in Moldova

One of Moldova's salient traits is its high ethnic diversity. In the 1989 census Romanians accounted for 64.5% of the total population, Ukrainians for 14%, Russians for 13%, Gagauz for 4%, Bulgarians for 2%, and Jews for another 1.5%. However, in Transnistria (total population 450,000) ethnic Romanians accounted for only 40% of the population, followed by Ukrainians with 28%, Russians with 25%, Bulgarians with 2%, and Gagauz with 1%. Romanians mainly live in rural areas and, aside from Chisinau, they are scarcely represented in the main cities. Ethnic Russians tend to be urban dwellers, while Ukrainians are more evenly distributed: half of them are in large cities, while the others live in long-settled villages scattered in the north and in Transnistria. The Gagauz are concentrated in rural southern areas, mainly around the cities of Comrat, Ciadîr-Lunga and Vulcanesti. Bulgarians also mainly live in the southern part of the country. Both the Jewish and the German communities shrank dramatically following WWII.

The Moldovan dialect spoken by ethnic Romanians in Bessarabia was viewed by both the Russian Empire and the Soviet Union as a serious impediment to the control of the local population. Under the tsars, Romanian-language education and the Romanian press were simply forbidden. Under Soviet rule, the official line was that there was a distinct "Moldavian" language since "Moldavians" were to be considered as a separate nationality from the Romanians of Romania. The Cyrillic alphabet and archaic Romanian words of Slavic origin were imposed on "Moldavian", Russian loanwords and phrases were added to "Moldavian", and a new theory was advanced that "Moldavian" was at least partly Slavic in origin. After the turmoil in the early 1990s, the 1994 Constitution eventually indicated that Moldovan (and not Romanian), written in the Latin script, is the official language, but provisions are made for Russian and other languages to be used in areas of minority concentrations. Russian is also to be the language of interethnic communication.

Political Instability. After the 1994 elections and the approval of the new constitution the Transnistria problem has remained frozen. Transnistrian authorities keep on considering

themselves as a separate legal entity from Chisinau, although independence has been formally recognized only by Abkhazia and the republic of Serbian Krajina. Russia, wary of encouraging separatism on its own territory, always refused to provide its recognition. However, several attempts from Russia, Ukraine and the international community at large (namely, OSCE) to mediate a solution to the conflict have led to little results so far. Recent confidence-building measures include reduction of forces on both sides and the re-opening of the Dubasari and Gura Bicului bridges on the Nistru river. Unlike ethnic Russians in Transnistria, the Gagauz leaders quickly managed to reach an agreement with the central government on the autonomous status of Gagauzia within the Moldovan Republic and present disputes mainly focus on budget allocation mechanisms and electoral law technicalities. The autonomous status of Gagauzia has been confirmed by the 1999 administrative reform, that led to the grouping of the country's previous 40 districts (*raion*) and 4 municipalities into 9 regions (*judet*), one municipality (Chisinau) and two special-status territorial units (Gagauzia and Transnistria).

The political landscape in Moldova has been transformed through a notable consolidation of the democratic process. Several parliamentary factions have been created, covering a wide spectrum of political positions, from the left to the right wing. In a way, it can be said that Moldova probably enjoys one of the highest degree of political freedom among CIS countries. International observers have always agreed in assessing Moldova's elections as reasonably fair and free, although voters in Transnistria are *de facto* not in the position to exert their rights. However, Moldovans' new enthusiasm for political pluralism and parliamentary democracy has also resulted in significant political instability and contributed to slow down the implementation of economic reforms. Since independence in 1991, Moldova has had nine different governments representing various political coalitions and as many as five electoral campaign years. The existing mechanisms of political representation force the government to seek a wide consensus among political factions before taking action. Unlike in other former Soviet Union countries, the powers of the Moldovan Presidency are relatively weak, and presidential vetoes on legislation can be fairly easily overridden by the Parliament. The incumbent president had plans to increase his powers, but his proposals have not found support in the Parliament.

Box 2.1 Party Politics in Moldova

During the late Gorbachev era the *Popular Front of Moldova* (PFM) grew as a strong opposition party on pro-Romanian positions, against the ruling *Communist Party of Moldova* (CPM). As a reaction to the new Moldovan nationalism, the *Yedinstvo* group was established in Transnistria on pro Soviet Union positions. Following the August 1991 coup in Moscow, the *Communist Party* was banned and the PFM briefly went to government, leaving *Yedinstvo* in opposition. Between 1992 and 1994, when general elections were held, several new parties were created, namely:

- the *nomenklatura*-led *Democratic Agrarian Party* (DAP), traditionally drawing support from cooperative farm leaders and from the agro-industrial *kombinat*, and favoring closer links with the CIS (56 seats out of 104 in the 1994 elections);
- The *Christian Democratic People's Front*, resulting from the union of the *Popular Front of Moldova* with the *Christian Democratic Party* and supporting reunification with Romania (9 seats in 1994);
- The *Peasants and Intellectuals Party*, a splinter moderate group from the PFM, supporting closer ties with Romania rather than sheer unification (11 seats in 1994)
- The *Socialist Party/Yedinstvo* bloc, on left wing positions, supporting strong ties with the CIS and rejecting privatization of state assets and other pro-market reforms (28 seats in 1994).

After the 1994 parliamentary elections the *Communist Party* was officially re-allowed into the political arena. In 1995, while approaching the new presidential elections, a number of small parties, supporting different presidential candidates, sprang out of the DAP, reducing its presence in Parliament to 43 seats. The 1996 presidential elections were eventually won by Mr. Petru Luchinski, the former speaker of the Parliament, as an independent candidate. The incumbent president, Mircea Snegur, supported by his own *Party of Rebirth and Reconciliation* (another splinter group from DAP), scored second. Early in 1997 a new government was appointed and pro-Luchinski forces formed the *Movement for a Democratic and Prosperous Moldova*.

The March 1998 parliamentary elections led to yet another dramatic change in the political landscape. Neither the *Democratic Agrarian Party* nor the *Socialist/Yedinstvo* bloc managed to cross the 4% threshold required for entry into Parliament. The *Communist Party* won over 30% of the vote, translating into 40 seats, while the remaining 61 seats were secured by three parties:

- the *Democratic Convention*, grouping the *Christian Democratic People's Front* together with the *Party of Rebirth and Reconciliation* and other minor groups (26 seats);
 - the *Party of Democratic Forces*, stemming from the 1996 reorganization of the previous *Peasants and Intellectuals Party* along pro-western and pro-market economy lines (11 seats);
 - and the *Movement for a Democratic and Prosperous Moldova* (24 seats) close to the President.
- These three parties joined together to form a new reformist center-right government. Early in 1999 ministers from the *Christian Democratic People's Front* left the government, but their party kept on providing key votes to a newly appointed reformist government comprising the remaining center-right parties. However, in autumn 1999 a major political crisis broke up when the right wing nationalist *Christian Democratic People's Front* decided to vote together with the *Communist Party* and a few independents, against a major reform package requested by the IMF as a condition for rescue lending.

In late December 1999 a new “technocratic” government was appointed, supported by an unprecedented coalition of right wing nationalists, communists and independents. The year 2000 saw an increasing confrontation between the Parliament and the President. Late in the year, the Constitution was amended to allow for the election of the President by the Parliament, with a three fifths majority. In December 2000 presidential elections were called, but during the first rounds of voting no candidate managed to reach the required majority.

3. MACROECONOMIC DEVELOPMENTS AND THE REFORM PROCESS

3.1 Introduction

In this Section we provide an overview of economic developments since independence. Section 3.2 focuses on macroeconomic developments and structural features, Section 3.3 concentrates on the reform efforts (and lack thereof), while Section 3.4 provides an overview of development prospects.

3.2 Structural Features and Macroeconomic Developments

An Unbalanced Economic Structure. Moldova enjoys a favorable climate and good farmland, but has no major mineral deposits or energy sources of its own. Industrialization patterns broadly reflect the different historical development paths of its two main sub-regions. Transnistria in general and the area around Tiraspol in particular, being part of the Soviet Union since the early 1920s, already experienced considerable industrial development under the Soviet plans in the period between the two world wars, with emphasis on heavy industry. In the rest of the country, substantial industrialization (especially in the Chisinau and Balti urban areas) occurred only after World War II.

Although Moldova accounted for less than 0.2% of the territory of the former USSR, the republic produced 2.5% of the Soviet Union's agricultural output, including 40% of total wine output. Industrial production is concentrated in food processing (45% of total output: 150 wineries, 130 fruit and vegetable processing plants and some 80 dairy and meat factories) and heavy industries (30% of total output: metallurgy, chemicals, energy production, etc.). The bulk of heavy industries and energy production is located in Transnistria, that with a 12.5% of the surface and some 18% of population accounts for some 40% of industrial output. All major commercial routes and energy pipelines to other former Soviet republics also pass through the disputed region.

The Transition Shock. Since the Moldovan economy was firmly embedded in the broader economic structure of the USSR, the country suffered one of the most dramatic economic disruptions among former Soviet Union countries. The Transnistrian conflict, the breakdown in inter-republican trade, the abrupt increase in external prices (especially for energy) and “imported” inflation from Russia (in Moldova a national currency was introduced only in late 1993) resulted in one of the deepest economic slumps experienced in transition economies in Europe. GDP first decreased by 17.5% in 1991 bringing down the economy at 1985 levels, the worst years of that decade because of the Gorbachev anti-alcohol campaign severely affecting the wine sector. Then, GDP kept on sliding ever after: -29% in 1992, -1% in 1993, -31% in 1994, -3% in 1995, -8% in 1996, +1.3 % in 1997, -8.6% in 1998 (after the Russian financial crisis) and -4.4% in 1999, totaling a cumulated slump in output of 70% compared with 1990 levels. As indicated in the following Table 3.1, Moldova is the most dramatic case among all transition economies, together with Ukraine and Georgia.

Table 3.1 GDP Levels in 1998 (1989 = 100)

Poland	117	Lithuania	64
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Slovenia	103	Kazakhstan	61
Slovak Republic	100	Kyrgyzstan	61
Czech Republic	95	FYR Macedonia	58
Hungary	95	Latvia	58
Uzbekistan	88	Russia	55
Albania	86	Azerbaijan	44
Croatia	78	Turkmenistan	44
Belarus	77	Armenia	41
Estonia	76	Tajikistan	41
Romania	76	Ukraine	37
Bulgaria	65	Georgia	33
		Moldova	32

Source: EBRD

Vulnerability to External Factors. Moldova is an extremely open economy with total external trade (imports + exports) accounting for 130-180% of GDP. The country is still highly dependent on Russia both as a market outlet for its exports and as a source of raw materials and energy. As trade relations with Russia have not changed much from Soviet times (basically food in exchange for energy and raw materials), this means that at current world market prices and consumption levels Moldova has a “structurally” negative trade balance (US\$ 100 million in 1999, over US\$ 50 million in the first quarter of 2000). Since remittances from migrant workers usually by-pass the financial system, net current transfers do not cover the trade balance. On the contrary, to finance imports Moldova has continuously increased its external debt stock, presently above 70% of GDP or 170% of total exports.

The 1998 Russian financial crisis, resulting in a further 8.6% decline in Moldova's GDP, highlighted how heavily the country's economic performance depends on external regional factors in general and on developments in the Russian market in particular. In an attempt to increase exports and to diversify away from the Russian market, Moldova has constantly sought enhanced access to EU markets under various partnership and co-operation agreements. Unfortunately, Moldova specializes in food products that are either highly protected within the EU itself or face substantial competition from other transition economies. However, a number of import quotas has been eventually granted to some Moldovan products, particularly wines. A pending proposal to extend the number of wine varieties allowed for import into the EU is presently being resisted by the French government. Moldova has also asked for admission to the WTO, and good progress has been reached in adapting the trade regime to WTO requirements. Apart from issues related to the sheer access to markets, a word of caution is necessary regarding the actual marketability of Moldovan goods in countries other than the CIS and Romania. Indeed, Moldovan products often lack the quality standards required in many world markets and the solution of this problem would require major efforts along the production and logistic chain.

Table 3.2 Moldova's Key Economic Indicators

	1993	1994	1995	1996	1997	1998	1999	2000-Q1
Population (in millions, end-year)	4.347	4.352	4.347	4.334	4.320	4.304	4.281	..

Output (% change)

Real GDP (year-on-year)	-1.2	-30.9	-1.4	-5.9	1.6	-6.5	-4.4	..
Industrial output (year-on-year)	na	na	-4.0	-6.5	0.0	-15.0	-13.6	..

Employment

Number of employees (thousand)	na	na	1286.8	1210.1	1126.6	1033.2	849.4	..
Unemployment rate	0.7	1.1	1.4	1.8	1.5	1.9	2.0	..

Prices (% change)

Consumer price index (year-on-year)	na	na	29.9	23.5	11.8	7.7	39.3	40.0
Wholesale price index (year-on-year)	na	na	52.9	31.2	14.9	9.7	47.1	40.6

Government sector

Total budget revenues (Lei million)	372.4	1438.5	2002.0	2074.2	2941.7	2721.9	3065.7	745.0
Total budget expenditure (Lei-million)	509.0	1718.8	2376.0	2827.0	3608.4	3027.1	3435.1	760.3

Monetary sector (Lei million)

M1 (end-year)	239.75	546.82	779.19	846.50	1122.63	1060.86	1448.84	..
M2 (end-year)	296.05	675.74	1107.19	1292.13	1739.56	1356.76	1746.92	..
M3 (end-year)	349.25	753.05	1243.83	1434.06	1922.63	1755.77	2542.95	..

Interest rates (% end year)

Interbank credits	na	na	na	na	na	43.45	26.29	26.27
Treasury bills (three-month maturity)	na	na	52.1	44.9	25.4	32.1	40.2	34.1
Deposits (one year)	na	na	na	na	na	27.93	26.84	26.89
Credits (one year)	na	na	na	na	na	34.28	35.25	35.24

External sector (US\$ million)

Current account	na	na	-95.16	-198.06	-284.97	-347.21	na	..
Balance of trade	na	-103.50	-95.19	-277.30	-297.10	-391.60	-96.50	-53.50
Exports	na	565.44	745.53	795.00	874.10	632.10	471.40	120.10
Imports	na	668.95	840.72	1072.30	1171.20	1023.70	567.90	173.60
External debt stock	na	632.6	839.9	1070.4	1285.7	1451.9	1461.8	..
Public debt service (Lei million)	18.2	129.0	116.0	242.8	377.0	421.2	866.9	..
GDP (Lei million)	1,821.1	4,736.8	6,479.7	7,797.6	8,917.0	9,122.1	12,204	..
excluding Transnistria								
GDP per capita (US\$)	348.0	323.0	394.0	443.0	523.0	444.0	311.9	..
Industrial output (% of GDP)	38.9	31.4	25.0	23.1	20.2	16.7	16.2	..
Agricultural output (% of GDP)	31.2	27.3	29.3	27.5	26.0	25.8	22.3	..
Final Consumption (% of GDP)	55.9	75.4	82.9	94.3	97.3	100.9	87.8	..
Exchange rate (Lei/US\$ % change on previous period)	na	na	10.6	2.5	0.4	16.5	95.5	7.4
Exchange rate (US\$ annual average)	1.45	4.06	4.49	4.59	4.63	5.38	10.52	12.42

Source: Tacis *Moldovan Economic Trends*

3.3 Overview of the Reform Process

An Apparently Promising Start. Despite the troubled political situation and the armed conflict in Transnistria, for some time Moldova was considered by the international

community as a fast reformer among former Soviet Union countries, especially when compared with neighboring Ukraine (not to speak of Belarus). Until well into the second half of the 1990s it was generally recognized that the country had achieved considerable progress in the field of reforms. This assessment was mainly based on the following considerations:

- Moldova had quickly liberalized prices, with restrictions remaining only for energy and some food items;
- trade could be considered as relatively open, with limited administrative barriers left;
- small privatization was quickly achieved and land privatization was announced;
- a tight monetary policy was enforced, bringing inflation progressively under control.

The emphasis given to mass privatization and tight monetary policy made Moldova at that time a sort of textbook example of how transition to a market economy had to be carried out in line with the basic requirements of the so-called Washington consensus. Less consideration was given by observers to other important factors that were actually missing in the picture, such as the enforcement of hard budget constraints upon privatized enterprises or the establishment of a decent regulatory framework for market transactions and private sector development. It was generally thought that these institutional factors would follow after economic stabilization, and even the obstacles to land privatization quickly emerged after the first timid experiments caused an uneven degree of concern among donors and international financial institutions.

The Ensuing Disillusion. The very limited progress achieved in terms of real growth eventually made everybody realize that more was needed to accomplish a sound transition process. External advisors and policymakers started focusing their attention on the need for institutional reforms and other structural adjustment measures, but the Moldovan government did not prove as reactive as before. The honeymoon with international financing institutions and the donor community was subsequently interrupted. First, in 1997 the IMF delayed the disbursement of the fourth tranche of its Extended Fund Facility (EFF) in protest against the government's decision to suspend energy price liberalization and its unwillingness to penalize politically powerful firms delinquent on their tax payments. Then, the World Bank suspended the disbursement of the second installment of its second Structural Adjustment Loan (SAL) to protest against the Parliament's rejection of a government-proposed law to set up a national land registry. This particular issue, together with the creation of a real market for land, then became a precondition for both the IMF and the World Bank resuming transfers to Moldova.

Despite pressure from IFI, in subsequent years Moldova continued to lag behind in the reform process: the civil code was not introduced, the general legal framework for private activities remained contradictory, legislation on bankruptcy was largely ineffective, and a cumbersome bureaucracy poorly familiar with a market environment was still in place. But at least monetary policy still fitted with the ideal reform scenario. The central bank kept very tight reins on monetary growth, no money printing was allowed to cover budget deficits, and the Government was forced to borrow in the open market to finance some deficit spending. In 1997 Moldova posted its only positive (albeit very limited) economic growth in the transition period. It seemed that the country had finally reverted its dramatic fall and was on the edge of recovery. And even land privatization was finally (although not completely wholeheartedly) given the green light.

The Aftermath of the Russian Shock. The Russian crisis in Summer 1998 and the related disruption of foreign trade and the payment system in the region delivered another major blow to the Moldovan economy, that plunged again into a severe crisis. In December

1998 the new reformist government finally managed to reach an agreement with the IMF to resume EFF financing. Policy conditions included the cash privatization of key state-owned firms in assisted sectors, the speeding up of land privatization and farm restructuring, the privatization of the energy sector, the strengthening of tax administration and budget control, and the streamlining of the public administration. The February 1999 political crisis caused another stalemate, but negotiations between the IMF and the new government eventually continued, resulting in another structural reform program comprising a mix of “transitional” and “structural adjustment” measures aimed at:

- reducing smuggling with Ukraine via Transnistria through the establishment of customs services;
- cutting expenditure in education, health services and support to agro-industries programs;
- further reforming the pension system;
- maintaining a tight monetary policy;
- liquidating bankrupt banks affected by the Russian financial crisis;
- privatizing major firms in the wine, tobacco, electricity and telecommunication sectors;
- enhancing the implementation of the land privatization program.

Latest Developments. After the political crisis in Winter 1999 and the formation of an unprecedented left-right majority, Moldovan authorities took a more confrontational stance towards international financial institutions and their “policy conditionality” approach. For instance, the Parliament refused to approve the privatization of key wineries and tobacco firms as a precondition for resuming IMF and World Bank financing. Despite the assurances given by the executive, the Parliament ignored the IFI-imposed April 2000 deadline to re-start the privatization process. As a consequence, all balance of payments related financing to Moldova from international financial institutions and donors (including the EU) was suspended. However, other sector-specific lending programs were allowed to continue, together with the preparation of other possible assistance programs. Moldova is currently facing the risk of being forced to default on its external debt. Attempts to obtain financial assistance from Russia are reportedly underway, within the framework of proposals to resume cooperation in the energy and military sectors. The central bank has also been requested to ease the reins of monetary policy in order “to make economic growth possible”.

3.4 Future Prospects

The Development Strategies. The persistence of structural constraints casts serious doubts on Moldova’s development prospects. The government’s long term development strategy is spelled out in the paper “Strategic Orientations for the Socio-Economic Development of the Republic of Moldova through the year 2005”. This document has been criticized by both the IMF and the World Bank as exceedingly optimistic in assessing the consequences of major expenditure cuts and for not providing a well-focused poverty reduction strategy aimed at the most vulnerable groups (see below). In particular, the World Bank has emphasized the need to strengthen the fight against corruption and to further consolidate the rule of law. However, in devising its country assistance strategy⁴ for the 1999-2002 period, the Bank itself recognized that even with accelerated reform “it will take time to generate results and external vulnerability will remain high well into the future”. Moreover,

⁴ World Bank, *Memorandum of the President of the IBRD, IDA and IFC to the Executive Directors on a Country Assistance Strategy for Moldova*, Washington, April 1999

social costs and political risks of further deepening adjustment would be serious and a forced debt restructuring “might become inevitable”. Table 3.3 below shows the alternative development scenarios elaborated by the World Bank on that occasion. It is apparent that in all cases the Moldovan government would face the awkward dilemma of getting exceedingly indebted with the IFIs or with *Gazprom*.

Table 3.3 Macroeconomic Forecasts: Immediate and Delayed Reform Scenarios

Immediate Reform Scenario	1999	2000	2001	2002	2005	2008
GDP Growth	-2,9%	0,0%	1,2%	2,5%	5,0%	5,0%
Inflation	35,0%	20,0%	10,0%	8,0%	5,0%	5,0%
Current Account/GDP	-20,6%	-18,7%	-11,7%	-7,8%	-3,6%	-1,7%
Fiscal Balance (cash)/GDP	-2,6%	-2,8%	-2,6%	-2,5%	-2,5%	-2,5%
Fiscal Balance (commitment)/GDP	-1,6%	-1,5%	-1,2%	-1,0%	-2,5%	-2,5%
Gross Reserves in Months of Imports	2,4	2,5	2,8	3,0	3,0	3,0
External Debt/GDP	114,9%	127,6%	131,7%	128,8%	99,8%	63,6%
(External Debt+External Arrears)/GDP	132,7%	140,7%	140,1%	132,8%	99,8%	63,6%
Debt Service/Total Exports	25,2%	23,2%	22,8%	30,2%	22,2%	14,1%
Delayed Reform Scenario	1999	2000	2001	2002	2005	2008
GDP Growth	-6,1%	-4,0%	-1,9%	-0,6%	2,1%	4,5%
Inflation	42,5%	35,0%	35,0%	15,0%	5,0%	5,0%
Current Account/GDP	-20,2%	-16,7%	-11,5%	-7,9%	-4,1%	-2,3%
Fiscal Balance (cash)/GDP	-1,8%	-2,1%	-2,8%	-2,7%	-2,5%	-2,5%
Fiscal Balance (commitment)/GDP	-7,3%	-7,6%	-2,8%	-1,0%	-1,0%	-2,5%
Gross Reserves in Months of Imports	1,4	1,2	1,0	1,2	2,8	3,0
External Debt/GDP	94,1%	89,7%	82,6%	89,0%	111,9%	87,9%
External Debt+External Arrears/GDP	122,9%	133,4%	136,2%	134,9%	136,9%	93,8%
Debt Service/Total Exports	24,9%	24,0%	24,3%	31,5%	23,7%	21,1%

Source: World Bank

The New Focus on Poverty. Initially, the drop in GDP was perceived both by Moldovan policy-makers and by international observers, as an inevitable transitional set-back, to be naturally solved by economic growth stemming from market forces. However in the case of Moldova, recovery has never actually materialized and the country stands out as a sort of textbook example of “poverty trap”, with the limited domestic demand unable to generate any meaningful supply response and with the outdated productive sector unable to find alternative outlets in foreign markets. Today Moldova is among the poorest countries in Europe and over half of the population is living below the poverty threshold. Although informal activities and family farming help to relieve the situation, some 80% of the population is estimated to have an inadequate intake of calories. Health conditions are deteriorating, and tuberculosis and other infectious diseases are reportedly on the rise. Children appear by far the most vulnerable group. As education and health services are quickly vanishing, human capital protection and basic safety net measures increasingly appear as pre-conditions for Moldova to get out of the present poverty trap and resume economic growth.

It is not clear whether the poverty issue has been really included in the agenda of Moldovan authorities, but the problem has certainly become one of the main concerns for donors and for the World Bank. This is also in line with the renewed emphasis given (after the Asian and the Russian crises) to the fight against poverty and with the introduction of concepts like “comprehensive development framework” and “participatory poverty reduction strategies”, that tend to shift the focus from structural measures and conditionality-based support policies to the attempt to foster development at the local level, through a enhanced government “ownership” and greater involvement of non traditional players, such as NGOs and representatives from the civil society. At a certain point, Moldova had even been selected as one of the pilot countries for trying out “the comprehensive development framework” approach, but the suspension of adjustment lending due to disagreements with the IMF seems to have halted the process.

4. TACIS ACTIVITIES IN MOLDOVA

4.1 Introduction

In this section we provide a description of Tacis strategy and activities in Moldova. Section 4.2 places Tacis assistance into the broader framework of EU-Moldova political and economic relations. Section 4.3 provides a preliminary overview of the program's financial trends and sectoral allocations. Section 4.4 reviews the indications contained in the relevant Indicative Programs, including the policy guidelines of the 2000-2003 IP for future activities. Section 4.5 reviews the strategy and activities outlined in the Action Programs. Finally, section 4.6 contains an analysis of Tacis actions in terms of policy areas.

4.2 EU-Moldova Political and Economic Relations

Political Relations. The European Union recognized Moldova as a sovereign state immediately after independence in 1991. In January 1992, the European Commission announced that it would negotiate new political framework agreements (the future Partnership and Cooperation Agreements) with all the former Soviet republics to replace the 1989 Trade and Cooperation Agreement with the USSR. Russia and Ukraine paved the way with their new agreements signed in June 1994. A few months later, in November 1994, a similar document (although slightly less comprehensive) was also signed with Moldova. The ratification process was particularly complex, as it involved the Moldovan Parliament, the European Parliament and the Parliaments of all the 15 EU Member States. Pending final ratification of the Partnership and Cooperation Agreement (PCA), an Interim Agreement was put in operation, allowing for the trade-related provisions of the PCA to be implemented. Signed in October 1995, the Interim Agreement entered into force in May 1996. Finally, the PCA proper entered into force in July 1998 and it now represents the framework document for EU-Moldova political relations (see box 4.1). Representation duties for Moldova were left with the European Delegation in Kiev for some years. However, in order to ensure a closer follow up of PCA implementation, in late 1999 a branch office of the Kiev European Delegation was opened in Chisinau, with prospects to become in the future a full fledged Delegation.

The EU enlargement process presently involving Romania is having significant consequences on the Moldovan political debate. The perspectives opened by the PCA are no longer considered by some political parties as the only possible long term objective of the EU-Moldova political relations. A pro-accession movement has been created with the aim of lobbying for a full integration in the EU, and twenty Moldovan political parties (but not the ruling Communist Party) recently signed a common document on Moldova's accession to the EU. However, the country's official position is that formal steps towards the process of integration into the EU require consensus from all political sides, and that preliminary deeds in that direction include a "more efficient cooperation" within the PCA and a membership in the Stability Pact for Southern Europe. Such membership is presently resisted by the French and German governments and therefore cannot be supported by the Union.

Box 4.1 The EU-Moldova Partnership and Cooperation Agreement

The PCA is seen as a watershed in EU-Moldova relations. It is extremely ambitious in scope, covering almost all policy aspects (trade, commercial and economic relations), and establishes channels of communication up to the highest political levels. Respect for human rights and democratic process is placed at the very core of the relationship. Its main provisions include, among others, measures for improving the political dialogue at all levels, possible talks on a free trade area, EU support for Moldova's accession to the World Trade Organization, and EU assistance on restructuring state-run enterprises and economic reforms. Moreover, the PCA includes subjects as diverse as the exchange of best practice and know-how on the management of postal systems and on the conservation and preservation of historical sites and monuments. For analytical purposes, its main contents can be subdivided into four main areas: establishment of institutions to foster the political dialogue, trade and business facilitating measures, approximation of legislation in key sectors, and a legal framework for economic cooperation. In detail:

- **Political Dialogue.** In general terms “an increasing convergence of positions on international issues” is expected from both partners. More specifically three committees have been set up to foster political dialogue: the *Cooperation Council* at the ministerial level, the *Cooperation Committee*, comprising senior civil servants and the *Parliamentary Cooperation Committee*, made up of members of both Parliaments;
- **Trade and Business Facilitation.** The PCA contains a number of provisions aimed at facilitating trade relations and fostering investment and business contacts. It also envisages the possibility of a full fledged free trade area, subject to achievements in PCA-related trade facilitation norms and approximation of key legal texts;
- **Approximation of Legal Systems.** Approximation of legislation in areas such as competition policy, aid schemes, state monopolies and other state-owned companies is a precondition for the free trade area. Other related fields covered by the PCA include protection of intellectual, industrial and commercial property rights. Irrespective of the free trade area goal, the PCA calls for approximation of legislation in a number of well-defined sectors.
- **Legal Framework for Economic Cooperation.** Within the framework of the PCA, the EU has also given a clearer legal basis to its economic cooperation activities with Moldova. A list of areas where cooperation should be concentrated is also included in the agreement. All these areas are treated in specific articles, containing basic provisions on the desirable contents of cooperation in activities.

Economic Relations. So far EU financial assistance to Moldova has been articulated through three main instruments: (i) the Tacis program, (ii) balance of payments support lending, and (iii) humanitarian aid. As for Tacis, from 1991 to 1999 Moldova was allocated over € 70 million, including horizontal programs. In the area of balance-of-payments support, a total € 60 million was allocated until 1998. Another € 15 million loan was granted in 1999 as a way to help the country out of the sudden financial crisis following the Russian shock, but this was subsequently suspended due to disagreements with the IMF. Rather exceptionally, Moldova also received assistance from the ECHO humanitarian aid program, with € 4 million allocated in 1999-2000, as an emergency response to the growing poverty issue. In relative terms, the EU is the second largest donor after the US government. Although sizeable, EU assistance is considerably lower than the financial support granted by international financial institutions: at the beginning of year 2000 World Bank commitments to Moldova totaled some US\$ 450 million (almost all of them on IDA terms), while IMF financing totaled some SDR 130 million.

Before the dramatic slump caused by the Russian crisis, the trade balance with the EU was turning increasingly negative: from US\$ - 29 million in 1995 to a record high of US\$ - 189 million in 1998. This trend was temporarily reversed in 1999, largely as a result of the depreciation of the Leu. Preliminary data for year 2000 indicate that trade unbalances are going back to their pre-crisis level, and another negative figure for the EU-Moldova trade account is expected in year 2000. Overtime, the EU has become an important trading partner for Moldova, accounting for over 25% of imports and some 10-15% of exports, a share broadly comparable with that of neighboring Romania. Moldova benefits from the EU general preference system and most of its exports obtain 15% to 30% reductions in customs duties.

4.3 Tacis Activities – Overview

The Early Phase: 1991-94. Moldova started receiving direct Tacis assistance through country specific programs back in 1991, immediately after independence and recognition from the EU. At that time, the tense political climate was the main cause for Tacis' limited commitments: in practice only a € 1 million project in agriculture. It was only after the 1992 ceasefire in Transnistria that a more structured assistance program was established. From 1992 to 1994 Moldova received assistance under two different Tacis Action Programs, totaling € 19 million. Agriculture received the bulk of financing (some € 7 million), followed by the first initiatives in public administration and social sectors (€ 4 million) and in private sector development (€ 3 million). Finally, some financing was also devoted to initiatives in energy (€ 2.6 million) and transport (€ 0.6 million). Tacis financing was distributed over some 20 projects, with an average budget of around € 1 million per project. In addition to the mainstream projects included in the Action Programs, Moldova was also allocated € 1 million for policy advice activities under the European Expertise Service (EES) and benefited from other horizontal programs (Interstate, Customs, Statistics, etc). In many cases, the seeds of subsequent Tacis actions were sown in this first pioneering phase. Indeed, it was at that time that Tacis supported the establishment of the Business Center of Moldova and started working with the Ministry of Privatization, the Academy of Economic Studies and the Academy of Public Administration. It was also at that time that Tacis decided to embark in export promotion initiatives as well as in privatization activities.

The Period Under Evaluation: 1995-99. Tacis allocations to Moldova during the

1995–99 period under evaluation total an estimated € 56.5 million, of which € 34.2 million for mainstream projects, € 12.3 for Tempus and small projects facilities, and an estimated € 10 million for Interstate, Cross Border Cooperation and other instruments not included in the Action Programs. During the period under consideration, Tacis assistance was structured along two 3-year Indicative Programs (IP) (covering, respectively, 1993-1995 and 1996-1999), and three annual or biannual Action Programs (one for 1995, one for 1996-97, and the last for 1998-99). Table 5.1 below summarizes the financial assistance granted under these Action Programs. Total Tacis assistance kept slightly increasing, in particular with the 1998-99 Action Program, approved when the reform process seemed to have gained momentum. Noticeably, the average project size almost doubled from the € 0.8 million in the 1995 AP to the € 1.5 million of the 1998/99 AP. In fact, while total available financing for each Action Program has constantly increased, the number of mainstream projects included in programming documents has simply passed from 9 in the 1995 and 1996-97 Action Programs to 10 in the 1998-99 AP.

Tab. 4.1 Tacis Allocations by Sector - 1995-99
(€ million)

Sectors	Action Program 1995	Action Program 1996/97	Action Program 1998/99	TOTAL
Private Sector Development	1.5	4.5	2.8	8.8
Public Administration and Social Sectors	2.0	4.2	4.5	10.8
Agriculture	2.5	3.7	4.1	10.3
Energy	1.5	0.0	0.0	1.5
Transport	0.0	0.0	2.8	2.8
Tempus + Small Projects Program	1.0	4.9	4.8	10.7
Other/Reserve	0.5	0.6	0.5	1.6
TOTAL ACTION PROGRAMS	9.0	18.0	19.5	46.5
Environment – Interstate Facility	..	..	..	2.0
Energy – Interstate Facility	..	..	..	2.5
Transport – Interstate Facility	..	..	..	0.5
Cross Border Cooperation	..	..	..	5.0
TOTAL FACILITIES	..	..	..	10.0
GRAND TOTAL	..	..	..	56.5

Source: DG External Relations and estimates from various sources

During the 1995-99 period, resources have been more or less evenly distributed among three main areas of concentration, namely

- agriculture
- private sector development, and
- public administration and social sectors,

each accounting for about 20% of the cumulative total. Another 20% was allocated to facilities. With reference to mainstream projects only, over the period under consideration the importance of agriculture in relative terms has decreased from some 28% in 1995 to 21% in 1998-99, private sector development had a peak of 25% of total resources with the 1996-97

AP, and only public administration and social sectors remained more or less stable, around 23% of total funds. In 1995 Tacis also devoted some resources to energy, but involvement in this sector was discontinued in subsequent Action Programs. On the other hand, Tacis got involved in the transport sector with the recent 1998-99 AP (14% of resources). Another salient feature of Tacis in Moldova is the increasing importance of facilities overtime, which passed from 11% of the budget in 1995 to 25% in the 1998-99 AP. In particular, Tempus has been allocated substantial financing.

In addition to the initiatives included in the country budget, Moldova has also benefited from the Interstate Programs (focusing mainly on the Environment, Justice and Home Affairs and on the Energy, Communication and Transport networks) and from the Cross-Border Cooperation program⁵. In particular, since 1996 Moldova has received an estimated € 5 million CBC assistance and indirectly benefited (but for a tiny share only) from some € 45.5 million Interstate assistance.

4.4 Tacis Strategy – The Indicative Programs.

The 1993-95 Indicative Program. The 1993-95 IP was prepared when the 1991 Draft Reform Program was still under discussion in the Moldovan Parliament and the EU “expected to remain the main source of technical assistance on a grant basis” in the country. Although representing the first wide-ranging attempt at programming Tacis activities, the IP remained fairly vague on a number of issues, reflecting also the fast moving policy framework and the widespread uncertainty about the best possible course of action. Its main strategic orientation was the indication of the key policy area where assistance would be concentrated, agriculture, together with four lower priority areas: public administration and social sectors, private sector development, energy, and transport. Agriculture was selected as the main priority because of its importance in terms of GDP and its possible being a tool to “relieve macroeconomic and balance of payments constraints”. Significantly enough, “to improve quality and packaging of products to enhance export possibilities” was explicitly indicated among the objectives of Tacis activities, while no explicit mention was made to the land reform process. Involvement in energy was justified by the country’s “structural imbalance in terms of resource endowment”, while the selection of other policy areas mainly boiled down to a list of projects to be carried out (for instance, in the case of transport, support to the Giurgiulesti port initiative and assistance to Air Moldova in finding a partner for a joint-venture). Particularly vague were the indications concerning activities in enterprise restructuring (real privatization was just about to start). Conversion of military enterprises, market research studies, and “assistance in the protection of shareholders’ rights” were indicated as educated guesses of possible future activities.

The 1996-99 Indicative Program. The 1996-99 IP, discussed between May and July 1996, was conceived in a period of political stalemate (key presidential elections were due a few months later) and when the overall reform process was at its lowest point. The first enterprise privatization drive had been accomplished, and the second already seemed much

⁵ The Tacis Cross-border Cooperation (CBC) finances actions of a cross-border nature between the NIS and the EU, and between the NIS and Central European countries. It includes a small-project facility (managed in Lvov) for the financing of projects below € 200,000 at the Romanian border requiring three project partners (Moldovan, Romanian and EU), and a microproject scheme for preparatory measures up to € 10,000.

more problematic. The 1995 restrictive amendments to the land code were still in force, and agriculture was no longer considered as the engine for growth, but had more realistically become the country's "most conservative domain". With a view at concentrating assistance, the 1996-99 IP reduced the priority areas from 5 to 3 (energy and transport were abandoned), with no hierarchy among them. In practical terms, this meant that private sector development was given a much greater emphasis. In this context, export and investment promotion activities (the PCA and Interim Agreement had just been signed and the first references were being made to Tacis being one of the PCA implementation tools), enterprise restructuring, SME development (the Government program of establishing a support fund for SMEs was quoted), and banking and financial services were all considered as deserving possible Tacis intervention. Priorities in public administration and social sectors did not substantially change from what indicated in the previous IP: government machinery restructuring, active policies for the unemployed, higher education reform and social protection. It is worth noting that Tacis involvement in this last policy area was deemed particularly appropriate since the diverse social protection systems implemented within the EU were regarded as "a broad basis to draw suggestions for reform". A more systematic effort was also envisaged to improve the coordination of mainstream projects with facilities.

The 2000-2003 Indicative Program⁶. The 2000-2003 IP represents a major change in Tacis strategy as it reflects both the new Tacis regulations (which envisages newly defined areas of intervention) and the idea of approaching transition "from below", by focusing also on the promotion of civil society and no longer on institutional and economic development only. Three new priority areas of cooperation are selected, namely i) support for institutional, legal and administrative reform; ii) support to the private sector and assistance for economic development; iii) support in addressing the social consequences of transition (for details, Box 4.2 below). The achievement of PCA objectives is also explicitly indicated as one the main aims of Tacis. Drafted when political forces supporting an anti-reform platform were back to power, the IP highlights its being based on the assumption of Moldova resuming its reformist policy. Significantly enough, the role of agriculture and food policy is played down: indeed, the "development of the rural economy" (one of the possible areas of activity indicated by the new Tacis Regulation) is not indicated as a priority for action, although the rural development theme is somewhat expected to run through all the other areas of activity. In a further effort to broaden the program scope, the 2000-2003 IP also indicates the possibility of Tacis contributing to the regional pacification process, through specific pilot initiatives aimed at Gagauzia and Transnistria.

⁶ These comments are made on a draft version of the Indicative Program (without annexes) dated June 2000 and made available by DG External Relations. According to the relevant services, that text could be practically considered as the definitive version of the IP.

Box 4.2 New Priority Areas in the New 2000-2003 IP

The three possible new areas for action, not to be necessarily pursued together in each and every Action Program, are briefly outlined below:

Support for institutional, legal and administrative reform will include:

- implementation of the regional administration reform and other actions aimed at the central government;
- improvement of the legal environment for business activities, and in particular approximation of legislation in the areas indicated in the PCA through policy advice and training;
- enhancement of law enforcement through actions aimed at the judiciary and other administrative bodies with special regard for matters included in the PCA;
- other justice and home affairs matters (illegal immigration, money laundering, drug trafficking) possibly also through Interstate initiatives;
- development of civil society and increased awareness of the rule of law, citizen's rights and social solidarity through actions aimed both at the public administration and at citizen's organizations of various kind, including NGO.

In the support to the private sector and assistance for economic development priority area Tacis envisages:

- the continuation of large enterprise privatization;
- the provision of consulting services in various fields to private enterprises, especially SME, also with the substantial involvement of local consultants and training in accounting international standards;
- assistance to the banking sector, including further training and possible twinnings with EU banks;
- the elaboration and implementation of an FDI attraction policy, inclusive of related institutional strengthening;
- specific TA initiatives for improving access to credit by farmers and SME;
- possible involvement on a regional scale in the provision of management consulting and extension services and further development of agricultural markets and input supply networks. Additional initiatives include investment promotion for small agro-industries.

Finally, the support in addressing the social consequences of transition priority area includes actions with a particular immediate social value, such as:

- assistance in the decentralization of health sector management, together with the provision of equipment and supplies and with a special view to facilitating access from vulnerable groups. Action is also envisaged in increasing drug procurement cost-effectiveness;
- specific activities aimed at children protection (orphanages, children rights, etc.) in possible synergy with parallel SPP initiatives;
- a possible follow-up of activities in vocational training;
- improving availability of social services through community-based initiatives involving local administrations, NGO and users also through the provision of grant financing to facilitate economic reintegration.

4.5 Tacis Activities – The Action Programs.

The 1995 Action Program. The 1995 AP (total funding € 9 million, of which € 1 million for Tempus, see Table 5.2 below) was formulated in the framework of the 1993-95 IP. While confirming Tacis' initial demand-driven nature, the program took into increasing consideration the issue of donor coordination and envisaged specific collaborations with the EBRD (on an initiative to support *Agroindbank* – the Agricultural Credit project) and with the World Bank (for the support to the newly launched “enterprise isolation program” – the Support to ARIA I project). The Tacis strategy in agriculture, after taking a very cautious and skeptical stance towards the land privatization process, was basically inspired by the idea of discontinuing the “fundamentally useless” direct initiatives in productive activities implemented in the past⁷. Therefore, it aimed at “influencing indirectly rather than directly productivity, quality control, packaging, cost structures, technical and economic efficiency” through: i) assistance in developing better marketing practices both domestically and abroad (the Agricultural Marketing project), ii) “reinforcement of private production and distribution of certified seeds” (the Amplification of Seed Quality project), and iii) improving agricultural credit (the Agricultural Credit project). In the area of private sector development the AP selected the “tightening [of] financing discipline” and the “assistance in the finalization of privatization and business plans” as the two priorities for action and devised projects accordingly (support to the “enterprise isolation” program and assistance to the Business Center of Moldova). The reform of the social security system (pension system and health reform) was selected as the third priority area, while no strategy in particular was indicated for the energy sector and transport was dropped altogether.

Tab. 4.2 Initiatives Included in the 1995 Action Program

Projects	Amount (€ million)
Agricultural Marketing	1.5
Amplification of Seed Quality	0.4
Agricultural Credit	0.8
Business Center of Moldova II	0.5
Support to ARIA I	1.0
Support to the Social Security Reform	1.5
Support to the Health Reform I	0.5
Energy Conservation Programs	1.2
Support to the Department of Energy	0.3
Tempus + Small Projects Program + Reserve	1.2
TOTAL	9.0

⁷ See, for reference, A. Tsantis, G. Mergos, *Moldova Country Assistance Review 1991-1995*, October 1996

The 1996-97 Action Program. The 1996-97 Action Program (total funding € 18 million, of which € 4.9 million for small projects and Tempus) was the first AP implemented within the framework of the 1996-99 Indicative Program. For the first time, cross-border cooperation activities with Romania were included in the broader policy framework, and the principle that these would preferably focus on areas not covered by the AP was stated. Coordination with other donors was given an even greater emphasis than in previous AP, and two specific areas of cooperation with the World Bank were indicated: agriculture and education. The 1996-97 AP represented a notable change in Tacis approach to land reform, that was endorsed much more warmly and had become a possible “engine to overall economic growth”. In agriculture, the activities envisaged were a combination of: (i) institutional strengthening to the agency established by the World Bank to run the farm restructuring process (the Support to ARA project), (ii) provision of policy advice for a broader reform (the ARASS project), and (iii) a sort of large scale information campaign to support the privatization process (the Agroinform project). In private sector development, large enterprise break-up and parallel SME growth together with the social impact of restructuring were indicated as policy priorities. While SME support was left to facilities, Tacis mainstream projects were concentrated in further support to the “enterprise isolation program” (the Support to ARIA II project and the first aborted Competitiveness Support Center project) and in a relatively small initiative in conversion (the Support to Conversion II project).

In the social sectors, assistance to social security reform was to be discontinued “taking stock of the ongoing support” and replaced by actions focused on: (i) the vocational training system (the Support to Vocational Education Reform project), (ii) university education in subjects neglected in the past (the Support to Higher Education in Economics I project), and (iii) staff training and restructuring of ministries (the Support to Public Administration Reform project). The 1996-97 Action Program also indicated that the EES would focus on macroeconomic policy, trade promotion, and energy and transport. Energy saving had also to be included as a component of private sector development projects, while the maximum recourse was to be made of the PIP facility and of the Joint Venture Program, to give Moldovan managers a chance to broaden their contacts in the EU. Tempus was to be continued on a more limited scale and made it complementary to activities in education in economics. An analysis of the risks and assumptions underlying the Tacis strategy was carried out for all sectors.

Tab. 4.3 Initiatives Included in the 1996-97 Action Program

Projects	Amount (€ million)
Support to ARA	1.0
Land Mortgage (added in 1999)	0.1
ARASS	1.5
Agroinform	1.3
Support to ARIA II	1.8
Support to Conversion II	0.6
Support to Privatization II	1.7
Support to Public Administration Reform	1.8
Support to the Vocational Education Reform	1.5
Support to Higher Education in Economics I	1.0
Support to Higher Education in Economics II (added in 2000)	0.8
Tempus + Small Projects Program	4.9
TOTAL	18.0

The 1998-99 Action Program. The 1998-99 AP (total funding € 19.50 million, of which € 4.8 million for small projects and Tempus), is a fairly lean document, including a somewhat limited effort to derive the proposed actions from a policy analysis. Coordination with other donors has simply become of paramount importance in all sectors: agriculture with the World Bank, private sector development again with the World Bank, local administration reform with UNDP, and the health sector once more with the Bank. The Action Program follows closely (sometimes even literally) the structure of the 1996-97 AP. It introduces few innovative elements in the sector strategies. It confirms support to the agricultural reform process but switches “the focus on the goal of rural community development, which includes extension services, promoting the development of small private agro-businesses, and the strengthening of educational and training structures”. In private sector development, priority is given to: (i) further support to ARIA and its newly established branch, the Competitiveness and Productivity Center (with the Competitiveness and Productivity Center project), and (ii) assistance to the also newly-established Moldovan Export Promotion Organization (the Support to MEPO project), a response to the Moldovan dramatic dependence on CIS markets highlighted by the Russian crisis. Activities in public administration and social sectors are to follow up previous Tacis initiatives. Assistance to reform of the government machinery is moved from the central to the local level (the Support to the Regional Administration Reform project), the health reform process is again a focus of attention (the Support to Health Reform II project), and institutional support is given to the department entrusted with coordination of legislation approximation within the framework of the PCA (Implementation of the PCA). The transport sector resurfaces, with the inclusion of an initiative supporting the restructuring of the Moldovan Railways with a view to their possible privatization. As a political gesture to favor appeasement with Transnistria, a special initiative to refurbish the Gura Bicului bridge severely damaged during the civil war is financed.

Tab. 4.4 Initiatives Included in the 1998-99 Action Program

Projects	Amount (€ million)
Education Training and Research in Agriculture	2.5
Development of Advice Centers	1.2
Development of Machinery Rings	1.0
Support to MEPO	1.8
Competitiveness and Productivity Center	1.0
Support to the Regional Administration Reform	1.2
Implementation of the PCA	2.5
Support to Health Reform II	1.3
Refurbishment of the Gura Bicului Bridge	2.0
Support to the Restructuring of Moldovan Railways	1.0
Tempus + Small Projects Program + Reserve	4.0
TOTAL	19.5

4.6 Tacis Activities – Main Policy Areas

Agriculture. During the period under consideration, agriculture was the main recipient of Tacis assistance with total allocations in the order of € 12.1 million. Mainstream initiatives total € 11.30 million (of which € 4.10 million in the 1998-99 AP, partly yet to be implemented), while another € 800,000 were allocated through facilities. Tacis activities in agriculture may be grouped into 5 policy areas, namely:

- **Land Privatization:** efforts in this area were to focus on the dissemination of results of an earlier pilot project directly dealing with the creation of a land privatization model to be replicated all over the country. Since results of the pilot were below expectations (and the Government had chosen another approach), activities were reoriented towards general information actions and no further activities were carried out in this area;
- **Institutional Strengthening & Policy Advice:** activities were primarily focused at strengthening policy formulation and operational capabilities within the Ministry of Agriculture and the Agency for the Restructuring of Agriculture, a newly established entity supposed to be responsible for agriculture reform. Assistance was also provided to one of the two farmers' associations operating in the country, to strengthen its operational capabilities at the local level, while some support was also provided to the establishment of sectoral business associations. The last Action Program also envisages a further major initiative for the reform of agricultural education, training and research systems;
- **Development of Support Structures and Services:** several Tacis projects targeted the establishment and/or the development of structures and services supporting agricultural activities. Earlier efforts concentrated in the collection and diffusion of information on prices and the improvement of the quality of seeds. Then the focus switched to the dissemination of basic information on farming techniques and on land reform issues. The last Action Program includes projects aimed at extension services and the provision of

farming services through machinery rings. The establishment of wholesale markets, a key element to support agriculture, was assisted only through a small CBC initiative, currently in the pipeline;

- **Rural Finance:** Tacis assisted the development of rural credit capabilities within Moldova's leading bank, *Agroindbank*. The development of rural credit was also supported by the EBRD, partly using Tacis funding made available through the Bangkok Facility;
- **Promotion of Non Farm Activities:** unlike other donors, this is an area where Tacis has been scarcely present. Support was provided to a few large agro-industry enterprises in selected sectors to develop export capabilities and to establish international links and some grant financing was provided to a few small-scale initiatives at the village level. Other attempts to develop non farm activities in rural areas are so far confined to a couple of initiatives financed under the Partnership and Cooperation Program.

Private Sector Development. Total Tacis mainstream financing to private sector development over the 1995-1999 period amounts to € 8.5 million (of which € 2.8 million in the recent 1998-99 AP). Another € 3.5 million was allocated through various facilities. Tacis activities in private sector development may be grouped into 5 policy areas, namely:

- **Enterprise Restructuring:** this is the main area of intervention, with four mainstream projects (including one targeted at former defense enterprises). While activities were mainly aimed at directly supporting the restructuring of selected enterprises, efforts were also deployed to support the establishment and consolidation of a quasi governmental organization (the Agency for Restructuring and Industrial Assistance) acting as a focal point for enterprise restructuring activities. Limited assistance was provided through the facilities, with a handful of Productivity Initiative Program projects and a PCP initiative aimed at the Moldovan Union of Consumers' Societies.
- **Enterprise Privatization:** Tacis was to support the (troubled) second wave privatization with a mainstream project quickly fielded in 1998 using 1996-97 AP funds. This initiative was intended to both directly assist in the privatization of large scale enterprises through international tenders and to provide institutional strengthening support to bodies responsible for carrying out the 1997-98 privatization program. Tacis efforts in this field were partly complemented by resources given to the EBRD through the Bangkok facility.
- **SME Development:** during the period under consideration Tacis was only marginally involved in this area, with just one small project supporting the Business Center of Moldova, which had been established under an earlier project. Limited additional financing was provided through the ESSN, while the Joint Venture Program practically never worked in Moldova. In contrast to what done in many other CIS countries, no assistance was ever provided in the definition of an SME development policy;
- **Export Promotion:** this is an area of growing importance for Tacis activities in private sector development. After a series of successive EES projects, a large mainstream initiative aimed at supporting the Moldovan Export Promotion Organization was included in the 1998-99 Action Program;
- **Basic Legal and Institutional Framework:** this is another area where Tacis has played a limited role, leaving the leading role to GTZ, USAID and the IMF. Only a couple of small initiatives (one in bank supervision, the other in company registration) were launched through the EES.

Public Administration and Social Sectors. The total budget for mainstream projects over the 1995-99 period is about € 12.00 million (of which almost half, € 4.50, for activities

included in the 1998-99 AP presently under implementation). Another € 7.6 million were allocated through various facilities. Tacis activities in the area of public administration proper touched upon four main policy areas, namely:

- **Restructuring of the State Machinery:** through one mainstream initiative (spearheaded by a couple of EES projects) Tacis addressed two interrelated issues: the reform and consolidation of ministerial structures, and the reform of the civil service. During implementation the initial emphasis on upgrading existing structures was somehow replaced by the need to reach cost savings through downsizing, as requested by agreements with IFI;
- **Support to Macroeconomic Management:** this is an area where Tacis was directly involved on a limited scale leaving the leading role, to the IMF, the World Bank and USAID. Still, Tacis provided support to Moldovan customs through the Eurocustoms facility (Customs Code, training) and the CBC program (two customs and border posts). Through a series of EES initiatives and the Interstate Statistics facility, Tacis also assisted in the collection, treatment and diffusion of macroeconomic data;
- **Capacity Building in Foreign Relations:** this is a niche area of intervention for Tacis, that through a series of successive EES projects assisted Moldovan authorities in WTO accession, preparation of the PCA, aid coordination, and other foreign trade related matters. Early efforts through the facilities, were later complemented by a large mainstream project to support implementation of the PCA included in the 1998-99 AP;
- **Regional Administration Reform:** after a few sporadic initiatives in local government support financed through various facilities (city twinning between Chisinau and Anderlecht, training of staff in Falesti), Tacis timely addressed the issue of regional administration reform with a mainstream initiative included in the 1998-99 AP.

In the social sectors, Tacis efforts were concentrated in four main policy areas:

- **University Education:** this is one of the main recipients of Tacis assistance, through both mainstream projects (two initiatives aimed at enhancing teaching capabilities in economics and management) and the Tempus facility, extensively used (some 20 projects) to foster cooperation and exchanges with EU universities;
- **Vocational Training:** after some early, small (and somewhat overlapping) projects aimed at understanding and forecasting labor market requirements, Tacis entered this new area with a mainstream initiative included in the 1996-97 AP and aimed at assisting the Ministry of Education through broad policy advice and some pilot experiences;
- **Pension Reform:** with a mainstream initiative included in the 1995 AP Tacis provided policy advice and institution strengthening support to the Ministry of Labor in implementing the pension and social security reform. Subsequent actions in this field were left to World Bank;
- **Health Reform:** Tacis provided a mixture of policy advice, institutional strengthening and training activities primarily aimed at strengthening primary health care and at introducing the family doctor system. A mainstream project was financed under a 1995 AP, after an earlier EES initiative. Further assistance to implement the medical insurance reform is included in a 1998-99 AP project.

Energy, Transport and Environment. These were residual areas of intervention for Tacis in the period under evaluation. Only two mainstream initiatives in energy were included in the 1995 AP, with total allocations of about € 1.5 million, while interest in transport was somehow revived in the 1998-99 AP. Environmental issues have been dealt with only through the facilities, and at any rate on a very modest scale. Given the sporadic nature of

interventions, describing the strategy in practice amounts to a simple listing of initiatives. In particular:

- in **Energy** the two mainstream projects included in the 1995 AP consisted in the provision of further support to the National Energy Efficiency Office and in the provision of parallel policy advice to the Ministry of Energy. Through Interstate programs (mainly INOGATE) Moldova was included in initiatives aimed at improving inter-state energy trade and restructuring of the hydrocarbon network infrastructure and reserve management, while Bangkok Facility funding was used to support an EBRD initiative in district heating;
- in **Transport** the two mainstream projects included in the 1998-99 AP envisage the rehabilitation of the Gura Bicului bridge on the Nistru river, and the restructuring of Moldovan Railways, with a view to its possible privatization. Other minor initiatives were financed through the City Twinning program (public transport in Chisinau) and Interstate initiatives (studies for the Trans European Networks corridors), while Bangkok Facility funding was used by the EBRD for a couple of projects (road rehabilitation and Chisinau airport);
- the **Environment** was covered by Interstate and CBC programs only. Interstate assistance first focused on the elaboration of environmental action plans, then moved to awareness raising activities (educational materials and information support to local NGO) and to the establishment of the Regional Environmental Center. CBC focused mainly on water management (emergency warning system for the Danube river basin and information system - sample analysis, collection of epidemiological data, etc. - Prut River basin covering both Moldova and Romania).

Tab. 4.5 Tacis Strategy in Moldova – Policy Matrix

Sector	Policy Area	Objective	Tacis Activities	Other Donors	Comments
Agriculture	Land Privatization	Break-up large state farms and establish private ownership of land	One pilot project, initially to be followed up by a dissemination exercise	USAID heavily involved with the Land Project. Indirect World Bank support through establishment of Cadastral Services	Tacis activities discontinued after USAID model prevailed
	Institutional Strengthening and Policy Advice	Create a legal environment and political institutions to foster market oriented evolution	Two mainstream initiatives supporting ARA and the Ministry. Support to one farmers' association	World Bank heavily involved, together with other donors in supporting ARA	ARA was de facto deprived of its main task (privatization)
	Development of Support Structures and Services	Develop a network of supporting services (extension, machinery rings) and disseminate information on prices and good practices	Four mainstream projects in marketing, seeds, information, and machinery rings	Large World Bank operation in extension and machinery rings due to start in late 2001(delayed)	Risk of overlapping and of crowding out of genuine private initiatives in farm services
	Rural Finance	Enhance provision of credit to farmers	Assistance to <i>Agroindbank</i> to develop rural credit	Establishment of savings and credit coops by the World Bank; rural credit initiatives supported by USAID	Acute need, but at prevailing productivity levels, loans hardly affordable in agriculture
	Promotion of Business	Foster the creation of agro-industry or other non-farm related businesses in rural areas	Limited involvement through PCP initiatives only	USAID extensively involved through CNFA (mini mills, storages, etc.)	Crucially important to stem migration flows and increase revenue in country side
Private Sector Development	Enterprise Restructuring	Provide management advice to privatized and defense companies	Five mainstream projects, assisting directly enterprises, plus support to establishment of ARIA	World Bank support to ARIA plus some direct assistance to enterprises	Sustainability of ARIA to be ascertained
	Enterprise Privatization	Reduce the role of the state in productive activities and attract foreign capital and foreign expertise	Support to large scale privatization	Support to large scale privatization from USAID	Strong resistance from Parliament halted the program
	SME Development	Support formation and	Limited involvement,	USAID heavily involved in	Crucially important to

		development of newly established private enterprises	through creation of business center and some facilities	establishment of Business Centers network and business associations and provision of equity financing. EBRD involved in micro-lending	revitalize static economy
	Export Promotion	Increase enterprise competitiveness	Support to new, state sponsored export promotion organization	GTZ launched early project	Top priority, due to the severe imbalance in trade flows
	Basic Legal and Institutional Framework	Establish a legal and institutional environment conducive to business activities	Limited actions through facilities (company registration)	GTZ heavily involved in drafting of basic laws; IMF and World Bank also active in this area	Disagreements among donors on Civil Code reform
Public Administration and Social Sectors	Restructuring of the State Machinery	Streamline the government machinery and adapt it to its new regulatory roles	One mainstream project aimed at restructuring and improvement in civil service	IMF watching closely trends in public expenditure	Focus shifted from restructuring to quick cost savings (which were not achieved anyhow)
	Support to Macroeconomic Management	Assist the government in managing fiscal revenues and public expenditures and keep under control macroeconomic variables	Some assistance in customs through facilities plus minor actions in statistics and economic information	IMF and World Bank extensively involved, with USAID working on budget matters	Need to involve the Parliament to avoid inconsistency in policy
	Capacity Building in Foreign Relations	Strengthen government capabilities to interact with donors and international organizations	Several small projects on WTO accession, PCA implementation , aid management	None	Tacis' niche area of intervention
	Regional Administration Reform	Establish regional governments with enhanced political responsibilities in various areas	One mainstream project plus some small initiatives (twinning, etc.)	UNDP providing parallel assistance	Major reform, also with political consequences due to ethnic diversity
	University Education	Develop curricula and teaching methods in line with Western standards and improve management capabilities	Extensive use of Tempus and mainstream projects for higher education in economics and management sciences	Some similar USAID initiatives	Tacis important player in this field
	Vocational Training	Bring the educational system more in line with	One mainstream initiative, including some pilot	None	Important area, but necessary investment

		the requirements of the labor market	projects		money not yet forthcoming
	Pension Reform	Adapt the pension system to the new market environment and ensure its financial sustainability	One mainstream initiative	World Bank involved with Social Security Project	World Bank now taking the lead, after somewhat imposing its views
	Health Reform	Streamline provision of health services and ensure better access to the population	Mainstream initiative on primary health care reform. New project on health insurance	World Bank involved in Health Reform, with project just approved	World Bank money may help in putting in practice advice provided in the past

PART II
EVALUATION

5. EVALUATION OF TACIS ACTIVITIES: AGRICULTURE

5.1 Background

Overview. Since independence Moldova's agricultural sector has suffered a major decline. Compared with 1990, total output has decreased by some 54%. While agriculture still employs 40% of the labor force, its contribution to GDP has dropped from 30% to little more than 20%. The decline is due to a combination of factors, from the collapse of rural infrastructure (irrigation schemes, storage facilities) to the disruption of traditional supply networks, to the loss of traditional markets in the former Soviet Union. Natural causes also contributed to the dramatic downturn, with a succession of floods in the northern regions and frequent droughts in the South. The decline in agricultural output also affected the many agro-processing facilities established in Moldova's countryside, many of whom have been laying idle for years.

The collapse of the centrally planned system, with its complex system of artificial prices and subsidies, has exposed the chronic over manning characterizing Moldova's agriculture since Soviet times (when there were about 12 agricultural workers per 100 ha as compared with less than 1 in the EU). Migration to urban centers and abroad (an estimated 600,000 migrants since independence) is slowly adjusting the agricultural labor force to levels more in line with the sector's real potential, but in the process many former state farm workers have been forced into subsistence farming, making a meager living out of small family plots. The endless search of new land to till has contributed to alter the pattern of agriculture specialization, with an increase in the arable land grown with cereals at the expense of higher value crops (such as grapes, tobacco, vegetables), that require larger plots and/or a more developed "market infrastructure" to be profitable. Socio-economic conditions are particularly harsh for certain groups, such as pensioners, who receive payments with huge delays, and former administrative workers of state farms, who often have little skills in even basic farming techniques. In these conditions, Moldovan policymakers and donors alike are faced with the awkward dilemma of choosing either to support rapid economic rationalization to improve productivity but with huge social problems or to provide a more extensive and generic support to the rural population at large as a form of "social security" assistance, but without any sound economic rationale.

The Privatization Process. Given the country's economic and political structure and its high dependence on agriculture it comes to little surprise that land privatization and farm restructuring turned out to be a highly controversial political issue. Although the expropriation of land was relatively recent, dating back only to the late 1940s, the early Moldovan governments did not consider restitution as a viable alternative and instead opted for a sort of mass privatization scheme, based on the distribution of land to the workers of state and collective farms. The fundamental mechanisms for land privatization were introduced in 1991-92, with the adoption of the Land Code and of the Law on Private Farms. However, due to a combination of procedural complexities and of growing political resistance from the state farm *nomenklatura*, in the early years some tangible results were achieved only in few liberally-minded *raion* (Orhei, Criuleni). At the same time, many collective and state farms were nominally converted into "joint stock companies", under the control of previous *kolkhoz* and *sovkhoz* managers. In 1995 some amendments to the 1991 Land Code set limits to the distribution of land to individual farmers and introduced the condition that land distributed to

peasants could be neither mortgaged nor resold before 2001. These restrictive measures were subsequently overruled by the Constitutional Court, but it was only in 1997 that political opposition to land privatization was eventually overcome and that large scale distribution of land to small farmers was started, mainly thanks to an USAID-financed initiative (the so called “Land Project”). As indicated in Table 5.1, by the end of 1999 the private sector accounted for almost 37% of total agricultural land, compared with 21% in 1997 and 25% in 1998. While the process is not yet complete, nowadays only Transnistria openly continues to resist land privatization, while the situation in Gagauzia is unclear.

In parallel with land privatization, the basic elements for a market for land have been gradually created. Initially, the distribution of land plots was done on an informal basis, and the poorly defined boundaries subsequently originated a number of disputes. The legal restrictions on land transactions put in place by early legislation were eased in 1998 and 1999: at present the price for land is no longer fixed by the state and land can be used as a collateral. As a result, banks have begun to enter the land mortgage market, although cautiously. While the number of transactions involving the purchase of land is still limited (only 2,000 hectares bought and sold so far), the market for land leases is becoming significant, although no statistics are available as most agreements of this kind are short-term (not required to be registered by authorities) or made in oral form.

Table 5.1 Trends in Land Tenure 1990-1999
(as % of total agricultural land)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
State sector	32.3	26.7	25.2	31.2	30.1	16.7	17.3	17.7	17.5	16.6
State farms	27.0	23.4	20.4	14.6	12.8	0.1	1.0	1.0	1.0	1.0
Reserve fund	0.0	0.0	0.1	12.7	13.3	13.4	13.6	14.0	14.1	14.1
Corporate Forms	59.4	63.0	63.0	56.2	56.8	67.9	64.8	61.4	57.2	46.1
Collectives	59.4	63.0	58.8	49.2	45.2	39.3	23.1	15.2	12.7	10.4
New corporate forms	0.0	0.0	4.2	6.2	8.9	27.6	38.9	43.0	41.7	33.9
Farmers associations	--	--	--	0.8	2.7	1.0	2.8	3.2	2.8	1.8
Smallholder sector	8.3	10.3	11.7	12.6	13.2	15.3	18.0	20.9	25.3	36.7
Peasant farms	--	--	0.0	0.3	0.7	2.4	4.8	7.8	12.2	22.3
Household plots	8.3	10.3	11.7	12.3	12.5	12.9	13.2	13.1	13.3	14.4

Source: Agency for the Restructuring of Agriculture

Institutional Reform. The reform process proved fairly complex also from an institutional viewpoint. Descending from a Soviet-style line organization directly involved in production, the Ministry of Agriculture has traditionally come to represent the interests of the former collective farms and, especially in the crucial 1995-96 years, it constituted a bastion of opposition to the privatization process. In order to overcome this sort of institutional resistance, in 1996 the Agency for the Restructuring of Agriculture (ARA) was created, with financial support from the international community and with the mandate to foster the emergence of a market-oriented agricultural sector. This inevitably resulted in an acute antagonism between the Agency and the Ministry. To complicate matters further, in 1996-97 the Government *de facto* entrusted the implementation of the privatization process to the USAID's Land Project. With privatization largely completed and ARA without a clear objective (apart from a not better specified involvement in post privatization activities), in recent times the balance of power has tilted back towards the Ministry of Agriculture, which has regained its position as main interlocutor for donors and international financial institutions.

Farmers Associations. At present, there are two main farmers associations in Moldova: the National Federation of Farmers of Moldova (NFFM), with an estimated membership of 60,000, and the St. George Peasants' Cartel, with some 22,000 members. Since its creation, the NFFM has maintained strong links with the establishment: the head office is located in the building hosting the Ministry of Agriculture, the association is usually involved in all donor financed initiatives attached to the Ministry, and the NFFM leadership includes prominent political figures linked to the Government. The St. George Peasants' Cartel was established by a right-wing party in 1996 and was particularly active at that time in fighting opposition to land privatization, with the provision of legal assistance to those farmers who wished to get their share of land out of the *kolkhoz* and to register land titles. Together with these two main groupings, a number of product-specific professional associations have been established (in dairying, walnuts, etc.), but their membership is still very limited.

Rural Infrastructure. The transition from the centralized collectivist system has had a severe impact on Moldova's rural infrastructure. Assets originally belonging to the *sovkhos* and *kolkhoz* (tobacco drying facilities, cattle sheds, storehouses, etc.) were privatized through the distribution of shares among former workers. However, the highly dispersed ownership structure, ultimately resulted in the total neglect of these structures. Similar problems emerged with irrigation schemes: while the pumping stations remained under state control, the water distribution network and most of the equipment were privatized, again with the distribution of shares among farmers. Since the new owners often could not agree on the criteria for the use and maintenance of irrigation schemes, this ultimately resulted in the near complete breakdown of the system. As a result, irrigated area declined from some ha 190,000 in 1990 to a mere ha 34,000 in 1998.

Moldova's agriculture is also suffering from severe bottlenecks in logistics and other trade support structures. At present there are no agricultural wholesale markets to speak of in the country, while the existing product collection centers are often in bad conditions and, at any rate, not easily accessible by poor peasants with no truck. The same broadly applies to the distribution network for fertilizers and other agricultural inputs, once run by the state concern *Fertilitatea*. The few private companies that have entered the market for agricultural inputs

are generally based in Chisinau, and so far have rarely ventured in more distant rural areas.

Rural Finance. The development of a rural finance system was severely delayed by legal constraints (uncertainty in land titles, problems with the mortgaging of land) and by the lack of expertise in the assessment of loans and in land valuation techniques. Initially, even *Agroindbank*, Moldova's agricultural bank *par excellence*, was scarcely active in rural areas. To counter this problem, in the mid-1990s the World Bank promoted the establishment of a network of Savings and Credit Associations (SCA) active at the village level and assisted by a non-bank financial institution (the Rural Finance Corporation), acting as a re-financing facility. The development of the SCA, together with some improvements in the legal framework, has injected some dynamism in the rural finance sector and lately both *Agroindbank* and other commercial banks have shown a greater interest in doing business with farmers. However, existing opportunities remain confined to seasonal financing and other short term lending, and there is still a serious gap in the area of term financing for investments in machinery or infrastructure.

Environmental Problems. Environmental problems such as soil erosion and groundwater contamination in villages have been aggravated as a consequence of land reform and of the related new social structure. Given its hilly nature and the frequent floods, Moldova is structurally subject to soil erosion. However, the problem has been recently exacerbated by the particular way in which land plots were distributed during the privatization process. Indeed, in most cases the plots were carved up in a way that fields do not follow hill contours, but are aligned along the hill slope. As a consequence, the land is tilled in a direction that naturally favors soil erosion. It has been estimated that about one quarter of the land area (more than ha 300,000 of agricultural land) is affected by erosion, with serious implications for the long-term sustainability of agricultural production. Another major environmental problem is groundwater pollution in villages. In the past Moldova used to have serious environmental problems due to the misuse of mineral fertilizers and pesticides and the inefficient treatment of agro-industrial wastes. This "old" form of pollution was curtailed by the transition process itself, with the related dramatic drop in chemicals use and the dismantling of many agro-industrial complexes. A totally new environmental problem was created instead. Animal husbandry is no longer carried out in sheds (as it used to be in former *sovkhoz* or *kolkhoz*) since animals were distributed among villagers who keep them close to their houses. This often results in the pollution of wells, whose water is used for household needs. It is estimated that 60% of rural wells are polluted with nitrogen compounds, hydrogen sulphide and fluorides.

5.2 Tacis Activities

Overview. Agriculture and food policy was by far the most important budget item for Tacis in the 1991-1994 period, absorbing approximately half of available resources. During the period under evaluation, its importance has been gradually decreasing: indeed, allocations to agriculture passed from 28% of the overall budget in the 1995 Action Program to some 21% in the 1996-97 AP, to remain broadly at the same level in the 1998-99 AP. Including the (somewhat limited) resources deployed under the various facilities, in the second half of the 1990s total allocations to support Moldova's agriculture amounted to some € 12.1 million.

Mainstream Projects. During the period under evaluation, the Tacis Action Programs

included some ten mainstream projects in agriculture, totaling some € 11.3 million. These projects are listed in Table 5.2 and briefly described below:

- **Pilot Project in Privatization in Orhei** (“Orhei Pilot Privatization”): included in the 1993-94 AP and carried out over the 1995-97 period, this € 2.4 million project was attached to the Ministry of Agriculture and implemented in cooperation with local authorities in the Orhei *raion*. Conceived when the land privatization drive had just begun, the project was intended to establish an “easily replicable model” to assist this crucially important process. The project was not directly involved in the apportioning of land and in the distribution of land titles, but rather focused on accompanying measures: the establishment of a cadastre at the local level, the provision of extension services to newly established private farmers, the establishment of service cooperatives intended to manage agricultural machinery and facilities inherited from the collective farms, and the provision of advisory services to other players in the rural economy (e.g. training of loan officers at *Agroindbank*). Project activities in the field were to be supported at the central level by the provision of advisory services to the Ministry of Agriculture and by a communication campaign intended to disseminate information about privatization⁸;
- **Improvement of Marketing of Agricultural Products** (“Agricultural Marketing”): included in the 1995 AP and carried out over the 1996-2000 period, this € 1.5 million project was attached to the Ministry of Agriculture and had two main components. The first was aimed at compiling and disseminating information on prices of agricultural products in Moldova and other countries, through the publication of a newsletter and other means (web site, spots on the radio). The second component was aimed at assisting the development of marketing and export capabilities in selected sectors (wine, vegetables, dairy products, and walnuts). Towards the end of the project, the first component evolved into an independent organization, the Central Agricultural Marketing Information Bureau (CAMIB), an NGO established by local project staff and intended to continue the provision of the same services on a commercial (or, at least, cost recovery) basis;
- **Development of Credit to Private Farmers** (“Agricultural Credit”): included in the 1995 AP the project had a budget of € 800,000 and was implemented over the 1996-98 period. The first component was intended to support Moldova’s leading credit institution, *Agroindbank*, through the strengthening of project appraisal and lending capabilities both at headquarters and in the rural areas. The second component, attached to the National Federation of Farmers of Moldova, was intended to support this organization in developing its own lending arm. This second component, somehow in conflict with prevailing views on the division of labor between lenders and borrowers, was later re-oriented towards the development of business planning capabilities within the Federation;
- **Amplification of Quality of Seed Supply to Farming** (“Amplification of Seed Quality”): also included in the 1995 AP, this € 400,000 project was carried out during the 1996-1997 period. Attached first to the Ministry of Agriculture and subsequently to a number of state owned seed companies and research institutions, this was a predominantly “technical” project, aimed at improving the quality of potato and vegetable seeds. The updating of the Moldovan legislation on seeds and the establishment of an association of seed producers were also among project objectives;
- **Information Campaign on Agriculture Privatization** (“Agroinform”): included in the 1996-97 AP and with a budget of € 1.3 million, the project was initiated in 1998 and is now approaching completion. Attached to the Agency for the Restructuring of Agriculture

⁸ The Orhei Pilot Privatization project was part of an earlier Action Program. However, the project was included in our analysis due to its objective importance and its relationship with several subsequent projects.

(ARA), the project was initially conceived (as clearly indicated by its title) as an effort to disseminate information on the achievements of the Orhei Pilot Privatization project. Since these achievements turned out to be limited, the project was later transformed into a more generic information dissemination initiative, with the establishment of 10 regional centers involved in the distribution of leaflets and the organization of seminars, etc. on a wide range of topics, from legal advice on land titling to horticultural techniques;

- **Support to the Agency for the Restructuring of Agriculture** (“Support to ARA”): included in the 1996-97 AP, this € 1,000,000 project was implemented over the 1997-99 period and directly attached to ARA. Initially, the project was intended to be a classical institutional strengthening operation to the benefit of ARA. However, when land privatization was in practice entrusted to USAID, project activities were redirected towards other areas (amendments to the bankruptcy law, introduction of modern land valuation techniques). Other project activities assisted the NFFM in the establishment of regional centers (including the financing of small projects – purchase of equipment, storage facilities - through micro-grants);
- **Assistance to Reform in the Agriculture Support System** (“ARASS”): the third agricultural project included in the 1996-97 AP, with a budget of € 1.5 million. With three local counterparts (the Ministry of Agriculture, ARA and the Center for Strategic Studies and Reform), the project started in 1997 and is expected to end in 2000. Initially, it was aimed at providing policy advice in a variety of areas (insurance system, price policy, credit policy, taxation, human resource development, foreign trade relations). Implementation was severely affected by the financial difficulties experienced by the Tacis contractor, and when operations were resumed, efforts mainly concentrated in the drafting of a ten-year development strategy;
- **Support to Agricultural Education, Training and Research** (“Education, Training and Research”): with a budget of € 2.5 million, the project was included in the 1998-99 AP and is attached to the Ministry of Agriculture. It is an ambitious project, aimed at supporting the reform of the whole education system in agriculture, through the introduction of modern teaching techniques and curricula and an improved co-operation between educational and research institutions. Due to start in the second half of 2000, the project will have a duration of 30 months;
- **Development of a Network of Agricultural Advice Centers** (“Development of Advice Centers”): the second agricultural project included in the 1998-99 AP, with a € 1.2 million budget. Attached to the Ministry of Agriculture, the project is to support the establishment of a network of extension services in rural areas. The project is supposed to coordinate activities with a major World Bank operation with the same objectives currently in the pipeline. Due to start in the second half of 2000, the project will have a duration of 18 months;
- **Development of Agricultural Machinery Supply and Service** (“Development of Machinery Rings”): the third agricultural project included in the 1998-99 AP, with a budget of € 1 million. The project will assist in the creation of machinery rings to provide services to farmers, and provide assistance to new agricultural service firms. Standard TA activities (and, possibly, some investment money) will be associated with policy advice to be given to the Ministry of Agriculture in related areas;
- **Development of the Mortgage Market in Moldova** (“Mortgage Market”): a small project (total budget € 100,000) designed: (i) to put in practice the experience gained with the land valuation component of the Support to ARA initiative, and (ii) improve land mortgage practices in *Agroindbank*. Implemented in year 2000, the project was financed with some funds remaining from previous initiatives.

Other Tacis Initiatives. In agriculture the bulk of Tacis financing was provided through mainstream programming, while the use of other instruments has been fairly limited. The main initiatives include:

- a **Cross Border Cooperation** project in collaboration with the *Diputacion de Cordoba* for a feasibility study on wine-tourism circuit development in the Hincesti - Lapusna region (1997, € 194,000);
- two **Partnership and Cooperation Program** initiatives in collaboration with the *Plunkett Foundation* of € 300,000 each. The first project, now completed, was aimed at assisting six cooperative farms to restructure into autonomous farm business units. The second initiative, still ongoing, represents an interesting case as it is the only example of Tacis supported initiative aimed at developing micro-enterprises in rural areas.

Finally, Moldova benefited from an **Interstate** project aimed at enhancing trade relations and regional cooperation in agriculture through the harmonization of trade legislation and common regulation for food products in line with WTO requirements. All in all, during the period under consideration funds devoted to Moldova's agriculture through the various facilities amount to some € 800,000.

Table 5.2 Mainstream Projects in Agriculture

Project	Action Program	Budget (€ million)	Status
Orhei Pilot Privatization*	1993-94	2.4	Completed
Agricultural Marketing	1995	1.5	Completed
Amplification of Seed Quality	1995	0.4	Completed
Agricultural Credit	1995	0.8	Completed
ARASS	1996-97	1.5	Approaching completion
Support to Agency for Restructuring Agriculture	1996-97	1.0	Completed
Agroinform	1996-97	1.3	Approaching completion
Education, Training and Research	1998-99	2.5	Due to start
Development of Advice Centers	1998-99	1.2	Due to start
Development of Machinery Rings	1998-99	1.0	Not yet tendered
Mortgage Market	1998-99	0.1	Approaching completion
Total		13.7	

* Project included in an earlier Action Program but covered by this exercise because of its importance and its relations with the Agroinform project.

5.3 Other Donors' Activities

World Bank. The World Bank's first large scale initiative in the agricultural sector in Moldova was the *First Agriculture Project*. Launched in May 1996, this US\$ 10 million project was intended to pave the way to future larger operations, primarily through the establishment of an appropriate institutional framework. In particular, it is through this project that the World Bank launched and implemented the idea of establishing the Agency for the Restructuring of Agriculture (ARA), conceived as a more efficient and (especially) pro reform alternative to the "conservative" and overly bureaucratic Ministry of Agriculture. This initiative was broadly supported within the donor community, as witnessed by the co-financing provided by the Dutch government and, more importantly, by the parallel launch of Tacis' Support to ARA project.

The subsequent *Rural Finance Project*, launched in early 1997, was aimed at supporting the development of a rural finance system capable of reaching the newly established private farmers. This was to be achieved through: i) the establishment of some 30 Savings and Credit Associations (SCA) active at the village level and operating on the basis of mutual credit principles; ii) the adoption of a regulatory framework for the operations of SCA; and iii) the setting up of the Rural Finance Corporation (RFC), a non-bank financial institution acting as a re-financing window for the SCA. The budget (US\$ 5 million, financed with IDA money) included both a technical assistance component and a credit line channeled through the RFC.

A third World Bank project having a bearing on the agricultural sector is the *First Cadastre Project*, launched in April 1998 with a budget of US\$ 15.9. While the project is aimed at supporting the establishment of a modern cadastre in general (to be used for a variety of purposes, from urban planning to taxation), the creation of an estimated 24 rural cadastral offices is expected to help in consolidating the results of the land privatization campaign, by making land titling services more easily available to users.

Finally, in mid-2000 the World Bank had in the pipeline another large scale agricultural operation (the *Moldova Market Access and Rural Services Project*, with a tentative budget of US\$ 25 million) broadly aimed at supporting post privatization consolidation and development. As defined in available documents, project objectives include: i) the promotion of a closer vertical coordination among the various agents along the marketing chain; ii) the development of a network of rural advisory services for providing farmers with information, advice and training; and iii) the establishment of agricultural machinery service centers (the so called or "machinery rings") to assist rural entrepreneurs. The project is presently at the appraisal stage and is expected to be implemented starting in February 2001, in cooperation with the Tacis project Development of Advice Centers⁹.

⁹ In late 2000 the World Bank decided to cancel the project as a stand alone operation and to include some of its components into a new, larger initiative. This is going to alter the timetable, as implementation of the new project is expected to start in September 2001 at the earliest.

EBRD. The EBRD has been little involved in Moldova's agriculture. The only notable initiative is the **Wine Export Promotion Project**, approved in October 1994 and worth US\$ 30 million. Channeled through a special purpose vehicle, the company *Vininvest*, the loan was used to finance the restructuring and modernization of nine wineries and of a glass container company. The loan (backed by a sovereign guarantee and supported by technical assistance provided by Japan and by the Bangkok Facility) was intended to improve the quality and packaging of Moldovan wines, in order to increase export sales in Western markets. The loan was fully disbursed but the EBRD is reportedly experiencing problems in recovering its money. Indeed, most of the recipient wineries are in a difficult commercial position and only one has been reportedly able to reach a satisfactory level of export sales. A rescheduling of debt is made impossible by the sovereign guarantee and the EBRD is now looking for an industrial partner willing to undertake a debt-equity swap operation.

USAID. USAID has played a key role in land reform and farm restructuring process, in particular with the **Land Privatization Program** (often referred to simply as the **Land Project**). The project started in 1996-97 with two pilot collective farm break-up exercises that resulted in the distribution of some 186,000 land titles to over 72,000 landowners. Based on the success of these pilot exercises, in 1998 USAID was encouraged by the new right wing government to extend the Land Project nationwide, to include an approximate 900 state and collective farms. With an estimated total budget of some US\$ 30 million (possibly the largest donor financed initiative ever implemented in Moldova), the Land Project is scheduled to complete operations at the end of 2000.

Other USAID financed activities in the agricultural sector are implemented mainly through the Citizens Network for Foreign Affairs (CNFA). The two main operations include:

- the **Agribusiness Partnership**, aimed at establishing partnerships between Moldovan and US entities in the area of input supply, agricultural machinery, distribution, etc. (six processing/marketing projects and five farm service centers implemented so far); and
- the **Private Farmer Commercialization Program**, aimed at strengthening distribution networks in rural areas (six farm stores already established and four others due to become operational in the Fall of 2000).

In addition, since September 1999, CNFA has become involved in **rural finance** through the launch of a medium term lending program in cooperation with *Fincombank* (whereby CNFA is responsible for project preparation activities and shoulders part of the credit risk along with the bank). A similar initiative concerns the support given by CNFA to *Agroindbank's* Private Farmer Credit Fund, aimed at providing medium term loans of US\$1,000 to US\$25,000 to private farmers and farmer groups.

Other Actors. Main other donors active in the agricultural sector are the Dutch Government, FAO and IFAD. In addition to the US\$ 1.5 million devoted to support ARA in parallel with the World Bank, the **Dutch Government** has been assisting the NFFM in the creation of service units within the regional centers. These centers were also assisted by the Dutch foundation Eurodesk as well as by the Soros Foundation. The **FAO** recently completed a US\$ 332,000 project aimed at improving Moldova's grain policy through a variety of policy and institutional measures. Finally, **IFAD's** first intervention in Moldova has been through the US\$15 million Rural Finance Project. This five-year initiative was approved in 1999 and is intended to assist some 44,000 private farms in developing their production and commercial activities. Of the total amount, IFAD is to provide US\$ 8 million on highly concessional

terms.

5.4 Tacis Activities - Evaluation

Relevance. Tacis activities in agriculture have touched upon a variety of areas. While all can be regarded as somehow relevant, no critical mass was achieved in any specific area. The selection of counterparts was generally appropriate (with one notable exception) even if, with hindsight, Tacis gave excessive importance to the role of ARA. This contributed to complicate relations with the Ministry of Agriculture. Coordination with other donors has been generally good, apart from the Orhei privatization project, in patent conflict with USAID. Timing and sequencing of actions was generally appropriate, with reservations regarding the Agricultural Marketing and Amplification of Seed Quality projects.

Prioritization of needs and allocation of resources. In the agricultural sector Tacis initiatives do not display a high degree of concentration and the various projects have been targeted at several, different problems, with limited consistency overtime. This is partly the result of evolving perceptions regarding the land reform process and the main problems afflicting the sector. The 1995 Action Program was still endorsing a gradualist approach to land reform (“the evolution from central planning towards market-led farm management is slow by definition. Speeding it up artificially would result in a sure disaster”) and, therefore, was placing the emphasis on technically-oriented or at least politically neutral projects (in potato growing, rural credit and dissemination of information on prices). However, later Action Programs endorsed a more liberal activist approach, in line with a new consensus view emerging in the donor community. If one considers that this evolution in strategy was paralleled by some oscillations in the identification of the preferred counterpart, it comes to no surprise that some Tacis projects or project components were somewhat erroneously targeted. In particular:

- the Amplification of Seed Quality project was launched when the land under cultivation for vegetables and potatoes (the latter, incidentally, never a main crop in Moldova) had already started to decline and this not because of the poor quality of seeds but rather because of the dismantling of irrigation schemes and other rural infrastructure and of problems within the relevant organizations;
- the Orhei Pilot Privatization project focused on the development of privatization supporting services (cadastre at the *raion* level) and on the creation of structures intended to assist farmers in the post privatization situation (the service cooperatives intended to jointly manage the machinery inherited by the state farms), somewhat overlooking that the “real thing”, i.e. land privatization itself, was encountering major opposition;
- the Agroinform project was conceived as a follow up, dissemination exercise of the Pilot Privatization project that, however, offered very little to be disseminated, and later was turned into a fairly generic information dissemination exercise;
- after the problems experienced due to the bankruptcy of the first Tacis contractor, the ARASS policy advice initiative was reoriented towards the preparation of a 10-year sectoral development strategy whose practical usefulness raises some doubts.

Certainly, there are also examples of well targeted initiatives. A case in point is the Agricultural Credit project, which effectively addressed a crucially important problem. Also the Support to ARA project, once the objectives were redefined to take into account for the diminished role of ARA in the land privatization process, was effectively re-oriented towards

highly relevant policy and legal advice activities. As for the last batch of projects included in the 1998-99 AP, while certainly reflecting a common view among donors, they seem to reflect a traditional perception of the sector (with emphasis on extension services, vocational training and machinery rings), without making a clear choice about the target population (the dynamic commercial farmers or those scraping a living in subsistence agriculture).

Appropriateness of counterparts. In the agricultural sector Tacis has worked primarily with the Ministry of Agriculture, *a priori* the natural counterpart for most policy reform and institution strengthening activities. However, in 1996-97 Tacis also established a close relationship with ARA, that was selected as counterpart for two mainstream projects and for some components of a third. At that time, the selection of ARA as an alternative to the conservative Ministry of Agriculture appeared only too natural and indeed the move was shared by other donors. In retrospect, this decision to try to by pass political resistance to reform through the establishment of a new organization proved counterproductive. Indeed, not only the experiment substantially failed, as ARA never managed to play a significant role in land privatization and in subsequent phases, but it also backfired. As a result, Tacis found itself compelled to restore a decent working relationship with a Ministry whose attitude had in the meantime become somewhat unfriendly. Tensions probably reached their climax when the Ministry of Agriculture refused to take part in the Agroinform project, and the troubled implementation of the ARASS project (the only 1996-97 project at least partly attached to the Ministry) certainly did not ease the climate. As suggested by some negative remarks received during fieldwork, even current relations with the Ministry are not exactly easy ¹⁰, although the decision to attach all three projects included in the 1998-99 Action Program to the Ministry is probably going to contribute to future improvements.

In addition to the ARA v. Ministry issue, the selection of counterparts raises doubts in at least two other instances, namely:

- in the case of the Amplification of Seed Quality project the original partner organization was a state-owned monopoly (*Semintse*). By the time the Tacis contractor arrived, *Semintse* had been broken up into several independent entities while newly-established private companies had also entered the market for seeds. To avoid allegations of improperly supporting one company rather than another, Tacis had to extend activities to a number of organizations, that had never taken part in project preparation and therefore did not necessarily share project objectives;
- initially, the Agricultural Credit project retained the National Farmers' Federation as a counterpart for the provision of credit in rural areas, apparently without considering the conflict of interest that such an arrangement would have inevitably originated. However, this problem was subsequently redressed during project implementation and the Federation's role was wisely played down to that of a mere provider of advisory services.

Coordination with other donors. With one notable exception, coordination with other donors has been fairly good. At the project planning stage, constant exchange of information

¹⁰ Complaints heard in the Ministry ranged from Tacis working independently "in a substantially non transparent way", to the lack of any involvement of the Ministry in the selection of local experts ("who are often hired because of their good command of foreign languages rather than of their sector expertise"), to the never-ending request of allocating resources from technical advice to the provision of equipment ("at least on a 50% - 50% basis !"). However, some of these remarks are partly motivated by a generic disaffection towards technical assistance projects and by the Ministry's own budget difficulties (the over-manned staff are receiving poor wages, often paid with huge delays).

was ensured by periodical meetings held at the Tacis Coordinating Unit and instances of concrete cooperation are numerous. The USAID Land Project has been a major client of the Agricultural Marketing project and one of the main distributors of the information produced by this project. USAID also had recourse to the Tacis-funded Agroinform network for its information dissemination activities, while the re-defined Support to ARA project found effective ways to successfully co-operate with both GTZ and USAID. Although with some more difficulty, the various Tacis projects supporting the National Farmers' Federation also found ways of avoiding any serious overlapping with similar initiatives implemented by other donors. It is worth noting that these instances of cooperation were often based on clearly defined client-provider contractual relations, on a fee basis.

The only relevant example of lack of cooperation is the Orhei Pilot Privatization project. In this case the Tacis philosophy (support to gradual reform, no direct involvement in the distribution of land titles, promotion of service cooperatives to ensure the management of former state farm machinery and to retain a modicum of social cohesiveness) clashed with the approach adopted by the USAID in a parallel pilot project in Nisporeni (support to swift privatization, direct involvement in and maximum emphasis on the distribution of land titles, promotion of privately-owned service firms and commercial farming based on land-lease). A clear rivalry between the two project teams emerged (partly fostered by inadequate communication) and the final selection by the Moldovan government of the "USAID model" for large scale land privatization almost inevitably resulted in the widespread perception that Tacis had "lost the battle", and this irrespective of the real merits of the two approaches, both displaying pros and cons.

Political endorsement. Tacis initiatives in agriculture inevitably suffered from the stop and go nature of the reform process, although this did not impact too negatively on specific projects. After all, the Orhei Pilot Privatization was freely allowed to continue even though the Agrarian Party had come to power and, as a matter of fact, local authorities in Orhei *raion* proved reasonably supportive. Of course, the project did not manage to overcome the obstacles slowing down the privatization process in general, but this was not due only to the lack of political endorsement within Moldova. Indeed, the USAID success in the parallel exercise in Nisporeni, has much to do with the activist attitude of the US Embassy in Moldova, an asset that Tacis could (structurally, we are tempted to say) not match. Other projects experienced problems with local counterparts, but usually this cannot be regarded as a lack of political endorsement. For instance, the Agricultural Marketing project did have a number of chilly moments in its relations with the Ministry of Agriculture (which at a certain point even established a service explicitly in competition with the project) and ended up working almost in isolation, but this was mainly caused by disagreements on tangibles, rather than by questions of principle. Also, the mild criticisms that can be heard within the Ministry on the Agroinform initiative ("possibly of some use, but mainly trivial in its contents") appear more as the outcome of professional rivalries, rather than as an indicator of weak political support.

Other Tacis initiatives operated in a much more favorable environment. This was particularly the case for the Support to ARA project, that concentrated activities on areas (in specific, quick bankruptcy procedures applicable to large farms) where there was a strong agreement on the need to take urgent action, not only among donors, but also within the Government and (even more importantly, in the Moldovan political system) within the Parliament. And this broad agreement was unanimously recognized as a key factor for project

success. Also, the small Mortgage Market project presently under implementation enjoys reasonable endorsement, especially if one considers that such a subject was simply considered as taboo not so long ago.

Timing and sequencing of actions. Tacis timing and sequencing of actions has been generally appropriate with a couple of notable exceptions. First, the Amplification of Seed Quality initiative is the only major instance of Tacis arriving not only in the wrong place (see above), but also at the wrong moment, with new market forces introducing marked changes in project environment. Second, some components of the Agricultural Marketing project were somewhat ahead of time and based on overoptimistic assumptions on existing conditions and future developments. For instance, the dissemination of information on prices and export opportunities is relevant only if the basic market infrastructure for agricultural products exists (which was, and to a large extent still is, not the case in Moldova), but also requires that a decent communication system is in place. Despite the commendable efforts made by the project team (radio broadcasts, printed bulletins), it might be wondered how many farmers were regularly reached by the information in a country where the majority of people in rural areas is basically cut off from the outside world: electricity cuts are an everyday occurrence, newspapers are a luxury item, the phone system works with difficulties, and the postal service hardly exists. Also, the inclusion of a component aimed at improving export sales through market analyses and the provision of business contacts did not take into consideration the persistence of more tangible obstacles to the development of trade relations (few border crossing points, difficulties related to the taxation of goods in transit in Ukraine, etc.).

Effectiveness. The picture is mixed. On the positive side:

- agricultural credit appraisal capabilities within *Agroindbank* were indeed substantially strengthened. Now the bank has a dozen or so regional branches with staff specifically trained in these matters. Furthermore, the NFFM can provide advice to farmers in filling out credit applications in a number of regional offices;
- international land valuation best practices have been introduced by the Support to ARA project, which also achieved good results in the area of bankruptcy law;
- the Agricultural Marketing project achieved some significant results in its specific sectoral initiatives: two dairies were successfully assisted in their quality control and marketing activities, a dairy association was established, a dozen wineries received assistance for the establishment of a marketing department and three of them effectively managed to put the advice received to good use.

On the other hand:

- the Orhei Pilot Privatization project did manage to establish the service cooperatives, the local cadastre as well as a network of extension agents and demonstration fields, but the main objective of creating an “easily replicable model” was definitely missed, as plans to replicate the experiment in Criuleni were quickly abandoned by local authorities;
- no less than three different drafts of a law on agricultural cooperatives were prepared by three Tacis projects, but none was ever approved;
- neither the “lobbying office” established within the Ministry of Agriculture by the Orhei Pilot Privatization project nor the ARASS project ever managed to induce any significant policy reform. The strategy paper finally submitted by ARASS after its troubled life was received by the Ministry with many reservations and seemed bound to be amended and re-written in several parts;
- in the case of the Agroinform project, logistics is severely affecting effectiveness (and

efficiency). The “information centers” were created only at the regional level, and while this was probably the only feasible solution in practice, it also contributed to reduce the potential audience, as villagers do not travel to regional capitals often and some of them are not inclined to enter the regional government buildings where these centers are usually located. The organization of itinerant seminars could somewhat alleviate the problem, but only to a certain extent. The result is that until January 2000, some 5,000 contacts had been established through the ten regional centers, plus another 10,000 through the organization of seminars. If the average 900 contacts per month in the centers and 1,800 through seminars is maintained through the year 2000, this would mean a total 30,000–35,000 contacts, a figure hardly comparable with the total number of new landowners/private farmers. In monetary terms, this means an overall cost per contact as high as € 40, roughly the equivalent of a monthly salary in rural areas.

Impact. The best results were achieved by relatively small projects or project components. The impact of the policy advice component implemented within the framework of the re-defined Support to ARA project can hardly be underestimated. Indeed, the amendments to the Bankruptcy Law adopted thanks to the project have introduced a streamlined procedure that has already resulted in a dramatic increase in the number of liquidation procedures finalized (from an average of less than 30 per year to over 100 in 1999), while the introduction of sound land valuation techniques and its dissemination among relevant professionals are going to have a lasting effect on the development of a market for land. Similar considerations apply to the relatively small Agricultural Credit project (only € 500,000) that, through the strengthening of *Agroindbank*'s rural credit services (also supported by the EBRD using Tacis financing through the Bangkok Facility) contributed to the recent increase in lending to agriculture. While in absolute terms the volume of lending to agriculture is still limited, in relative terms the increase is significant (in the case of *Agroindbank*, over US\$ 4.3 million in 1999 compared with US\$ 800,000 in 1995).

In other cases, impact was much more limited if not entirely absent. This is certainly the case of the Amplification of Seed Quality project (that failed to have any lasting impact on agricultural specialization patterns) and of the Orhei Pilot Privatization project, that did not have any impact on the land privatization strategy. Also somewhat dubious is the impact of actions aimed at strengthening ARA, which despite the support received by donors and by the World Bank, was never in the position to play the expected role of catalyst for agricultural reform. Similar considerations apply to the information dissemination activities undertaken within the framework of the Agroinform project, whose client portfolio of an estimated 30,000 farmers (including those just stopping once to get a leaflet) does not compare favorably with a total rural labor force of more than one million. Finally, the impact of some initiatives is difficult to gauge either because too little time has elapsed since their conclusion or because of dramatic changes in their operating environment. The latter is certainly the case of the Agricultural Marketing project, whose impact was certainly obscured by unfavorable market developments in the aftermath of the 1998 Russian crisis, with Moldovan agricultural producers experiencing a sharp drop in export sales.

Sustainability. Sustainability of results depends on the nature of the activities undertaken. Whenever project components have a strong commercial-orientation results are likely to prove sustainable (the Agricultural Marketing and Agricultural Credit projects for instance). On the contrary, if other considerations are at stake, sustainability is much more problematic. This was particularly the case for the Orhei Pilot Privatization, whose

sustainability of results was very limited. Project components whose life depended on the continued local government's support disappeared immediately after project completion. The advice center in Orhei was discontinued as well as the first line extension services at the village level and the demonstration fields. Even the service cooperatives as such, did not prove sustainable in the majority of cases. Their tax treatment was particularly unfavorable (service cooperatives, unlike other agricultural firms, are subject to VAT for the provision of their services) but also market conditions did not prove particularly conducive to their development. Therefore, these organizations then lost their original nature of family farming support structures, to become still another case of associate farming established from the ashes of *kolkhoz*. In some cases, they were simply disbanded.

The financial sustainability of the NGO established by Tacis projects (CAMIB, the Agroinform centers) and of ARA remains to be seen. In present conditions, it seems unlikely that they can survive purely on a market basis (Agroinform centers earnings average some 50 lei a month). Even those NFFM regional centers turned into farm stores hardly manage to cover expenses. One way or another all these structures are looking for other forms of donor assistance, and are particularly targeting the World Bank project on advice centers and market support systems as the most likely candidate to provide some source of income.

Box 5.1 The Sustainability of the Orhei Experiment

During fieldwork the study team visited the seven villages of the Orhei *raion* where service cooperatives had been established by the Orhei Pilot Privatization project in order to assess the situation three years after project completion. The results of this small survey are summarized below:

- *Braviceni*: due to a number of factors (influence of former state farm managers, predominance of sugar beet in the area, which favors an integrated approach) the service cooperative has evolved in a sort of mini *kolkhoz* directly involved in production;
- *Crihana*: the cooperative is struggling to compete against private providers of farming services and half of the founding members have already left;
- *Ciocilteni*: the only village where the service cooperative has maintained its original approach. So far competition from other providers of farming services has been kept at bay thanks to the superiority of the equipment procured with assistance from the project (“a German combine, a real rarity in Moldova’s countryside”);
- *Ghetlova*: the cooperative appears to have evolved into a sort of private enterprise active in various businesses (pig raising, a small bakery, wholesale trading) under the strict control of the cooperative president;
- *Peresecina*: the two cooperatives are in difficult financial conditions and do not seem capable of competing successfully with private producers of farming services. Discontinuation of activities is expected in the near future;
- *Trebujeni*: the service cooperative does not exist any longer. Farming services to peasants are now provided by two private firms;
- *Viscanti*: situation similar to *Braviceni* (only difference, they grow tobacco instead of sugar beet), with the service cooperative having evolved into a vertically integrated operation under the strong leadership of a former *kolkhoz* manager.

6. EVALUATION OF TACIS ACTIVITIES: PRIVATE SECTOR DEVELOPMENT

6.1 Background

Overview. Since independence the Moldovan industrial sector has experienced a major decline. During the 1990s industry's contribution to GDP more than halved, passing from 39% to a modest 16%. Industrial output has dropped by more than 70% compared to pre independence levels and thousands of jobs in manufacturing activities were lost in the process. While official statistics are likely to overstate the negative trend, due to their limited coverage of newly established (often informal) private activities, there is no doubt that Moldova's industrial base has been severely eroded. The various privatization programs did alter the ownership structure but privatization *per se* has had a very limited impact on industrial performance. Indeed, in the case of Moldova the typical problems found in CIS countries (old managers with a markedly production-oriented mentality, disruption of traditional distribution and supply networks, etc.) were aggravated by country-specific factors, such as the dislocation associated with the conflict in Transnistria and the lack of domestic energy resources (a particularly severe drawback, due to the typically energy intensive nature of Soviet-style factories). Lately, some signs of improvement have emerged, especially as a result of the subcontracting activities undertaken by some apparel producers on behalf of Western companies looking for cheap labor. Yet, the overall picture remains bleak. The difficulties experienced in industrial restructuring are also reflected in the directions of Moldova's trade flows. Indeed, while imports have been largely re-oriented in favor of Western countries, exports are still largely concentrated in the CIS and Romanian markets. The fact that exports to Europe and North America have remained stable around a modest 20% since the early 1990s is a clear indication of the limited competitiveness of Moldovan enterprises.

Privatization. Moldova's first privatization program, largely aimed at small enterprises, started in 1993 and combined a voucher scheme (whereby each citizen received a so-called "patrimonial bond" whose value was proportional to his/her job seniority) with the sale of shares at preferential prices to insiders and other stakeholders (e.g. in food processing the suppliers of raw materials were offered up to 50% of shares). Implemented with assistance from various donors, by early 1995 the program had resulted in the privatization of some 57,000 economic entities out of a total of 61,400 initially in state hands. At that time, this was described as the most far-reaching, fastest and fairest privatization scheme ever implemented in the former Soviet Union. However, the resulting prevalent ownership structure, with shareholdings distributed between insiders, other stakeholders and the newly established investment funds (who had collected a great deal of the vouchers distributed to the population at large), subsequently proved to be largely inadequate to generate the necessary pressure to undertake restructuring measures.

In the second half of the 1990s enterprise privatization became a controversial subject and proved hard to implement. The "Privatization Program for 1995-1996", covering about 1,450 enterprises and combining cash sales of small entities and international tenders for large plants, ran into serious political opposition and management problems: of the 41 large companies selected for privatization in 1995-96 none had been privatized by mid-1997, and widespread rumors of corruption and mismanagement even resulted in the resignation of key political figures. Privatization efforts were resumed in 1997-98, again with a combination of direct cash sales and international tenders, but results remained far below expectations:

minimum prices set by the Government were too high, the promotional campaign was ineffective, there were problems with the legal framework, and foreign interest was very low. The parliamentary elections and the Russian crisis delayed any further achievement until late 1998. Starting from then, some progress was achieved with the sale of some large enterprises to foreign investors. However, despite continuous pressure from international financial institutions, only in October 2000 the Parliament removed its veto on the sale of “strategic enterprises” in the wine and tobacco sectors, eventually paving the way for the resumption of international assistance.

Industrial Restructuring. Many privatized enterprises have experienced serious problems: in the mid 1990s it was estimated that around a third of Moldovan industrial enterprises were posting losses. Because of widespread barter and netting operations, lack of liquidity was even more common. In response to such a situation, in 1995 the Government and the World Bank launched the so called “Enterprise Isolation Program”, whereby highly indebted enterprises would receive restructuring assistance in exchange for their acceptance of hard budget constraint principles (hence the term “isolation”, with reference to the impossibility of accessing bank loans and other forms of soft financing)¹¹. The task of implementing the program was entrusted to a newly established organization, the Agency for Restructuring and Industrial Assistance (ARIA). Although formally independent from the Government, ARIA was given certain powers enabling it to act as trustee in enterprise restructurings¹². Some 60 companies registered with the first wave of the “Enterprise Isolation Program” and about half of them completed it by mid-1998. Additional enterprises sought assistance from ARIA and in the Spring of 2000 the agency was still working with some 70 companies in both restructuring and post-restructuring activities. In desperate cases, when liquidation proved unavoidable, ARIA provided support for the creation of spin-offs in an attempt to save as many jobs as possible.

SME Development. In Moldova the emergence of an SME sector has lagged much behind expectations, with only a few hundred private firms engaged in some form of productive activity. This is partly due to structural features (the country’s predominantly rural nature is certainly not a positive factor in fostering the development of small manufacturing activities), but policy related factors have also played a significant role. For years Moldovan small entrepreneurs had to deal with an unfriendly bureaucratic and social environment, and even today, in certain parts of the country, private entrepreneurs are still regarded with suspicion by local authorities. In 1995-1997 the Government formulated some plans to support SME development (e.g. through the establishment of a guarantee fund), but subsequent political developments and severe budgetary difficulties limited the impact of these measures. Moldovan SME also face a lack of support structures (the existing business centers are largely concentrated in main urban areas and have limited outreach capabilities) and, as in other CIS countries, have hard times in accessing external financing. Some micro lending schemes and SME credit lines have been established with funding from donors and

¹¹ Broadly inspired to the principles informing US bankruptcy law, “enterprise isolation programs” were launched also in other former socialist countries (e.g. Bulgaria) where the ownership structure emerged from privatization and the general policy environment were not conducive to an “autonomous” enterprise restructuring drive.

¹² The procedure is broadly the following: after an insolvent enterprise has enrolled in the isolation program, a restructuring program is drawn up by the management with assistance from ARIA. The plan, which may include the cancellation of tax arrears, is then submitted to the creditors’ committee and if accepted, becomes binding for all creditors and other parties. ARIA is responsible for supervising the implementation of the restructuring plan.

IFI, sometimes with good results, but so far their overall impact has been limited.

Foreign Investment. Generally credited with one of the best foreign investment legislations in transition economies, for a long period Moldova was nonetheless unable to attract significant volumes of foreign investment. This was largely due to a combination of structural factors (namely, the limited natural resources base, outside agriculture), fears of political instability, and delays in the second privatization wave. The situation has somewhat improved in the last couple of years, and the list of foreign investors active in Moldova now includes several Western corporations (*France Telecom*, Germany's *Suedzucker*, *Coca Cola*, and Spain's *Union Fenosa*, who recently acquired stakes in some public utilities) along with some Russian concerns (*Gazprom* and *Lukoil*). The latest arrivals include some Italian and German medium sized companies in the clothing industry, who have established sub contracting agreements with various Moldovan enterprises, including some located in Transnistria. According to IMF data, also significant is the presence of investors from offshore zones, suggesting re-investment from abroad by local businessmen in search of foreign-investment status benefits. To further improve Moldova's appeal to foreign investors, in 1998 plans were advanced to set up ten Free Economic Zones, but the relevance of such a move (especially taking into account the *de facto* free zone status of Transnistria) appears dubious.

Banking Sector. The Moldovan banking sector is still weak and fragile, and barely managed to survive the 1998 Russian financial crisis, when a run on deposits created serious problems. At present there are some 20 commercial banks in operation, including some with foreign interests (*Commercial Bank of Greece*, *Commercial Bank of Romania* and *Bankcoop Romania*). The sector is still dominated by the former state owned *Agroindbank*, but lately new banks have been gaining some ground (e.g. *Victoria Bank*, participated by the EBRD). The *Savings Bank*, with the largest network of branches, remains under state control, but its importance is limited. As in most CIS countries, banks can count primarily on short term deposits and this makes much needed medium and long term lending hardly feasible. Delayed enterprise restructuring is also affecting the banks' balance sheets, and bad loans are estimated at around 20% of total outstanding loans. The central bank is increasing capital adequacy standards to at least maintain the existing limited public confidence in the system, but at the same time its supervision capabilities are seriously limited by the availability of sufficiently qualified staff. Indeed, the lengthy and burdensome liquidation procedures initiated for some banks after the Russian crisis are absorbing an inordinate proportion of the limited human resources available.

Basic Legal Framework for Market Transactions. In Moldova the basic legal framework for private sector development is still partly inadequate. While various pieces of legislation on private enterprise, contracts, etc. have been adopted since the early 1990s, the first draft of a comprehensive Civil Code was submitted to the Parliament only in 2000 (although this is also due to disagreements among donors supporting competing models). Moldova introduced a competition law as early as 1992, but, as in other CIS countries totally unfamiliar with this sort of instruments, such legislation was mainly used to reintroduce some form of price control under disguise, remaining totally ineffective in other respects. Recourse to courts to settle business disputes is still very difficult, with widespread allegations of corruption, but the quality of the judiciary system has been improving in recent times (also thanks to efforts deployed by the donor community) and judges now at least have tenure. Finally, in recent times there have been some improvements in the area of bankruptcy law.

The law adopted in 1992 remained largely ineffective for years and the enhanced enforcement of hard budget constraints through bankruptcy proceedings figured prominently in the agenda of successive governments. Some amendments were eventually approved in 1999 (largely thanks to efforts deployed by a Tacis project) and this has immediately resulted in a significant increase in the number of liquidation proceedings.

6.2 Tacis Activities - Description

Overview. During the period under consideration, enterprise restructuring and private sector development has been a top priority for Tacis. Allocations increased from 15% of the overall budget in the 1993-94 Action Plan to 25% in the 1996-97 AP, when private sector development was the largest single budget item. In the 1998-99 AP, the sector accounted for little less than 20% of resources budgeted. Private sector development also attracted significant resources from various facilities (namely, the EES, the Productivity Initiative, the ESSN or the Interstate projects). Overall, in the second half of 1990s Tacis resources allocated to the sector are estimated at about € 12 million.

Mainstream Projects. During the period under evaluation, the Tacis Action Programs included seven mainstream projects in enterprise restructuring and private sector development, totaling some € 8.5 million. These projects are listed in Table 6.1 and briefly described below:

- **Technical Assistance for the Implementation of the 1993-94 Privatization Program** (“Support to Privatization I”): included in the 1992 AP, this € 0.9 million project was attached to the Ministry of Privatization and carried out over the 1994-1995 period. The project was originally intended to support the first privatization drive but, since this was already extensively done by the USAID, initial plans had to be changed. Project activities were thus reoriented towards institutional strengthening (training, study tours, information systems) and a number of other initiatives (from assistance to the establishment of the stock exchange, to the drafting of legislation on bankruptcy, to the preparation of business plans for “business incubators”)¹³;
- **Enterprise Isolation Program** (“Support to ARIA I”): included in the 1995 AP, this € 1.0 million project was carried out over the 1996-1997 period. Attached to the Agency for Restructuring and Industrial Assistance (ARIA), the project was intended to support this newly established agency in the implementation of the “enterprise isolation program”. Apart from some institutional strengthening activities, the project mainly concentrated in the restructuring of six selected companies (*Moldcarton, Macon, Incomlac, Dana, Faconis* and *Agromasina*);
- **Assistance to SMEs for International Commercial Negotiation and Access to Local and Foreign Funding** (“Business Center of Moldova II”): included in the 1995 AP, this € 0.5 million project was in practice a follow up action to strengthen the Business Center of Moldova (BCM) established by Tacis under a previous initiative. Although activities covered a number of areas mainly connected with SME financing and international trade relations, the main (albeit somewhat implicit) project objective was to enhance BCM’s chances of survival as a self financing entity. The project was completed at the end of 1997;

¹³ The Support to Privatization I project is part of an earlier Action Program. However, the project was included in our analysis due to its interrelations with a subsequent similar project included in the 1996-97 AP.

- **Enterprise Isolation Program II and ARIA Development** (“Support to ARIA II”): included in the 1996-97 AP, this € 1.8 million project was the continuation of the Support to ARIA I initiative, on a somewhat larger scale. In addition to some institutional strengthening activities directly aimed at the beneficiary, the project provided restructuring assistance to 8 companies (*Nord Mobila, Drozhdi, Pielart, Moldovahydromash, Lapte, Building Materials Straseni, Zahar Falesti* and *Talmaz*). Initiated in 1998, activities were completed in year 2000;
- **Conversion and Development of Defense - related Firms** (“Support to Conversion II”): included in the 1996-97 AP, this € 600,000 project was also attached to ARIA. Originally intended to provide further assistance to a group of defense companies that had already received support under a previous similar initiative, during preparation the project was re-oriented towards three defense spin-off companies: *AFN* (motor testers), *Politex* (TV sets) and *Decart/Resolft* (payment and security systems and internet provider). Project activities covered a range of technical aspects and managerial functions (R&D, production, marketing, promotion of joint ventures with EU partners) and were carried out in the 1998 – 2000 period;
- **Privatization Task Force for the Implementation of the 1997-98 Privatization Program** (“Support to Privatization II”): included in the 1996-97 AP, this project was initiated in 1998 and its activities were extended until Spring 2000. With a budget of € 1.7 million, the project had two counterparts, the Privatization Department and the Republican Conversion Coordination Center (*Conversia*), and three components: i) assistance to large scale privatization through international tenders, ii) strengthening of the Privatization Department’s capabilities, and iii) assistance to the privatization of selected defense enterprises. However, the third component was dropped quickly after the project had started because of difficult relations with *Conversia*;
- **Support to the Moldovan Export Promotion Organization** (“Support to MEPO”): with a budget of € 1.8 million, the project was included in the 1998-99 AP. It is a classical institution strengthening initiative aimed at supporting the recently created Moldovan Export Promotion Organization (MEPO), an organization established in cooperation between the government and representatives of the private sector with the ambitious mandate of increasing exports. Project activities include advice on MEPO’s strategy and internal organization as well as training for MEPO staff, exporters, civil servants dealing with foreign trade, and Moldovan trade attachés abroad. Started in year 2000, the project is to last 18 months;
- **Support to the Competitiveness and Productivity Center** (“Support to Competitiveness and Productivity Center”): included in the 1998-99 AP, this € 1 million project is attached to the Competitiveness and Productivity Center, which is a branch of ARIA. The project replaces a similar initiative already included in the 1996-97 AP and subsequently canceled by the beneficiary. The project is aimed at assisting the center in providing Moldovan enterprises with expertise in specific domains (quality systems, ISO certification, etc.) in order to increase their international competitiveness. Due to start in the second half of 2000, the project is expected to have a 20-month duration.

Table 6.1 Mainstream Projects in Private Sector Development

Projects	Action Program	Budget (€ million)	Status
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Support to Privatization I*	1992	0,9	Completed
Business Center of Moldova II	1995	0,5	Completed
Support to ARIA I	1995	1,0	Completed
Support to ARIA II	1996-97	1,8	Completed
Support to Conversion II	1996-97	0,6	Completed
Support to Privatization II	1996-97	1,7	Completed
Support to Competitiveness and Productivity Center	1998-99	1,0	Due to start
Support to Moldovan Export Promotion Organization	1998-99	1,8	Ongoing
Total		9,3	

* Project included in an earlier Action Program but covered by this exercise because of its relation with the subsequent Support to Privatization II project

Other Tacis Initiatives. In the area of private sector development & enterprise restructuring Tacis also provided substantial assistance through various facilities. In particular:

- Moldovan enterprises received assistance from EU managers through the **ESSN** (with initiatives in the metal and chemical industries, in trading and in international transport services) and benefited from training activities abroad within the framework of the **Productivity Initiative Program**. In addition, the Moldovan Union of Consumer Cooperatives benefited from a **Partnership and Cooperation Program** with their Swedish counterpart that resulted, *inter alia*, in study tours and assistance in the management of two supermarkets;
- the **European Expertise Service** was particularly active in the area of export promotion. Indeed, an initial project aimed at formulating proposals for the development of an export promotion system was followed by two successive initiatives supporting the establishment of the Moldovan Export Promotion Organization (later to receive further support under a mainstream project included in the 1998-99 AP). A fourth EES project assisted Moldovan authorities in identifying the legal and IT requirements for the establishment of a modern Register of Companies;
- in the financial sector Moldova received assistance primarily through the **Bangkok Facility** managed by the EBRD (with three projects supporting *Agroindbank* and *Victoria Bank*) and the **FTF** program (one project to support the development of supervision activities within the central bank). A fourth Bangkok Facility project supported the preparation of tender privatizations;
- finally, Moldova was included in a series of projects financed by **Interstate Programs** and ranging from the provision of additional support to the Business Center of Moldova (BCM), to the preparation of a business plan for the Black Sea Trade and Development Bank, to the support for the modernization and upgrading of the payments and clearing system with other CIS countries.

All in all, about 20 initiatives were financed under the various Tacis facilities, with a total budget of approximately € 3.5 million.

6.3 Other Donors' Activities

World Bank. After providing support to the early privatization process through its rehabilitation loans, the World Bank launched the **First Private Sector Development Project** in 1996. This US\$ 35 million project (at IBRD terms) included:

- a credit line component, aimed at supporting productive investment through the provision of medium and long term financing to be channeled through local banks, and
- a series of technical assistance activities aimed at fostering SME development, as well as at supporting various entities (e.g. the Ministry of Finance, the Chisinau Chamber of Commerce, etc.).

The project laid the ground for the “enterprise isolation program” and one of its outputs was the establishment of the Agency for Restructuring and Industrial Assistance, responsible for implementing enterprise restructuring activities. The latter were considered fairly successful, while other components experienced problems. Indeed, after four years some US\$ 10 million have not been disbursed yet, reportedly due to difficulties with the SME promotion component and with the credit line.

The emphasis placed by the World Bank on enterprise restructuring is confirmed by the nature of the **Second Private Sector Development Project**, launched in 1997. This US\$ 9 million operation (at IDA terms) was intended to build upon previous achievements, based on the fact that “experience with the PSD I shows that the establishment of ARIA ... is an effective way to bring to Moldova good practices of enterprise turnaround techniques and to strengthen the country’s capacity of economic adjustment”. The objective is to increase managerial capabilities within recently privatized enterprises and thus improve their productivity and competitiveness. This is to be achieved through:

- the establishment within ARIA of a Competitiveness and Productivity Center capable of providing advanced managerial assistance to privatized companies, and
- on-the-job training for Moldovan managers through the financing of 3 to 6 month secondments with leading industrial counterparts in Europe or East Asia (in practice, a sort of large scale *replica* of Tacis’ Productivity Initiative Program).

While the project was conceived to make full use of previous experience, project design seems to have overestimated local absorptive capacity and by early 2000 disbursements were still well below targets.

EBRD. In line with its overall mandate, the EBRD has been particularly active in supporting private sector development in Moldova. A part from some technical assistance projects assisting the Moldovan Government in the area of privatization (some of which financed by donors, including Tacis), the main EBRD initiatives include:

- **The Swiss-American Micro-Enterprise Program:** a US\$ 5 million micro-lending program supported with significant technical assistance money provided by USAID (US\$ 1.2 million) and the Swiss Government (US\$ 0.4 million). Started in September 1996, the program worked with four local banks (*Victoria Bank, Agroindbank, Universal Bank and Mobias Bank*), through which the investment money was channeled to micro-enterprises. So far the scheme has reached some 500 customers (each receiving loans of maximum US\$ 20,000), reportedly with acceptable repayment rates;
- **Credit Lines:** since 1995 the EBRD has extended two credit lines to finance investment and working capital needs. Totaling some US\$ 25 million, the two loans have been channeled through local banks (*Victoria Bank and Agroindbank*), responsible for the appraisal of projects submitted by individual clients. All in all, some 80 Moldovan enterprises have benefited from these facilities;

- **Investments in Commercial Banks:** in 1995, in parallel with the launch of the first credit line, the EBRD acquired a stake in *Victoria Bank*. In December 1998, the EBRD also extended a convertible loan of US\$ 8 million to *Agroindbank*, which may eventually result in a shareholding. Finally, as part of a framework agreement, the EBRD has supported the entry into the Moldovan market of the *Commercial Bank of Greece*.

USAID. With an estimated yearly budget of US\$ 5 to 10 million, USAID has been by far the largest player in private sector development and enterprise restructuring in Moldova. Since the early 1990s USAID has played a major role in the **privatization process**, being the leading provider of technical assistance first to the Ministry of Privatization and later to the Privatization Department established within the Ministry of Finance. In parallel with privatization, USAID has been active in the establishment and strengthening of the Moldova Stock Exchange and in the development of local capabilities in accounting and auditing. In the field of **SME development**, USAID first supported the establishment of business support structures throughout the country (the Newbiznet network, the MACIP network), then provided seed capital financing through the Western NIS Enterprise Fund. The USAID has also supported the establishment of business associations and SME advocacy groups. In the **financial sector** USAID has been active primarily in strengthening supervisory capabilities within the central bank, with the establishment of a “troubled bank resolution unit”, the development of an early warning system, and a variety of staff training initiatives. The sheer size of the USAID program in private sector development, coupled with the strong political orientation (and even stronger political backing) of certain US initiatives has sometimes led to more or less open conflicts with other donors. Cases in point are the rivalry between the USAID and Tacis privatization initiatives in 1998-99 (when disagreements emerged as to whom should be involved in the privatization of certain enterprises), and the introduction of the Civil Code, when the draft proposed by GTZ found itself somehow in competition with another draft endorsed by USAID.

Other Actors. Germany’s **GTZ** was an early supporter of export promotion activities. Its *Pro-Comert* initiative assisted a certain number of medium sized enterprises in establishing contacts with foreign partners through participation in trade fairs and assistance in marketing techniques. The GTZ is also running a legal reform project that is largely concerned with the establishment of a more conducive legal framework for market transactions. As mentioned above, a draft Civil Code broadly inspired to prevailing Continental European standards was submitted to the Moldovan authorities in early 2000 while work is still underway in the area of bankruptcy legislation. The GTZ is also co-sponsoring the Center for Productivity and Competitiveness initiative and the related management secondment program. As for other donors:

- the **Dutch Government** mainly provided assistance to the first phase of the ARIA initiative and the enterprise isolation program,
- **UNDP** supported the establishment of a Foreign Investment Promotion Agency initiative, and
- the **British Know How Fund** has been mainly involved in the provision of technical assistance to local banks.

6.4 Tacis Activities – Evaluation

Relevance. Tacis prioritization of needs and the related allocation of resources was generally adequate, with emphasis placed on privatization and enterprise restructuring. Tacis also devoted substantial resources to the preparatory works for an export promotion initiative, MEPO, that has just started operations. Within a generally favorable picture, only initiatives in privatization suffered from poor donor coordination and weak political endorsement. In general, activities were reasonably timely and well sequenced. This depended partly on improvements in the Tacis administrative machinery and partly on some favorable circumstances.

Prioritization of needs and allocation of resources. During the period under consideration, Tacis efforts in PSD were mainly concentrated in three areas, namely:

- enterprise restructuring (in a broad sense, to encompass military conversion), with four mainstream projects and total allocations of about € 4.4 million,
- export promotion, with one mainstream project and several smaller initiatives under EES and other facilities, totaling an estimated € 2.5 million, and
- privatization, with one mainstream project worth € 1.7 million.

The above prioritization of needs, and the related allocation of resources, appears to be broadly appropriate. In particular, the great emphasis placed on enterprise restructuring is clearly in line with the pressing need of improving the performance (or, at least, of halting the decline) in the industrial sector. Similar considerations apply to the efforts in export promotion (need to improve the trade balance and reorient the direction of trade towards Western countries) and in large-scale privatization (need to attract foreign investment and expertise through the international tender procedure, although this was later resisted by local politicians).

During the period under consideration, Moldova has received relatively little support from Tacis in the field of SME development, with only one small mainstream project (€ 500,000) and some actions financed under EESN and PIP. This sort of negative priority (especially in terms of mainstream projects) also appears broadly adequate. Indeed, the emergence of a lively SME sector is certainly a top priority for the country, but the sort of classical TA provided by typical Tacis projects (establishment of business centers, SME associations and the like) was already being provided by other donors (mainly the USAID) while the financing of other, more operational activities (e.g. micro-credit schemes or investment funds) was not yet part of the Tacis “culture”.

Appropriateness of counterparts. The selection of counterparts was generally appropriate, with a few exceptions. Quite obviously, the bulk of privatization activities was attached to the relevant government bodies (the Ministry of Privatization first and the Privatization Department later) while enterprise restructuring projects had as local counterpart ARIA. On the other hand, problems emerged in dealing with *Conversia*, selected as the counterpart for the privatization of defense enterprises within the framework of Support to Privatization II. Indeed, as quickly discovered by the contractor soon after project start, *Conversia* (a holding structure modeled after late Soviet examples) had unclear relations with the enterprises to be privatized and seemed little interested in privatization (that would have eliminated its *raison d’être*). Not surprisingly, this component had to be abandoned. Another example of (at least partly) erroneous selection of counterpart is provided by the EES project dealing with the establishment of the Company Register, that was attached to the Chamber of Commerce while responsibilities for company registration were (and still are) with the Ministry of Justice. Finally, some doubts are raised by the dirigistic traits of the newly

established Moldovan Export Promotion Organization. While the idea of a public-private partnership in the crucial area of export promotion appears commendable in principle, it remains to be seen how it would work in practice in an environment where, on the one hand, companies are understandably afraid of sharing sensitive information about their commercial activities and, on the other, politicians and bureaucrats describe MEPO as a powerful tool “[to] exert control over the enterprises and [to] cut the margins for the gray economy to develop”.

Coordination with other donors. In general coordination with other donors was fairly good. Information on the projects in the pipeline was extensively exchanged and a workable division of labor was found. In particular, SME development and legal reform, the areas where Tacis contributed the least, were largely covered by USAID and GTZ. In turn, USAID avoided getting involved in enterprise restructuring, where Tacis played a significant role, along with the World Bank. Only some Tacis facilities faced significant competition from similar initiatives financed by other donors or IFI. This was especially the case of the Productivity Initiative, marginalized by the large secondment program included in the World Bank’s Second Private Sector Development Project, while the (limited) initiatives in the banking sector financed under the Financial Task Force (later to become part of the EES) were obscured by parallel USAID and IMF activities.

The above positive assessment does not extend to activities in the field of privatization. Here problems did arise, and Tacis found itself in open competition with USAID. In the case of Support to Privatization I, the project was completely marginalized by an USAID initiative already in the field, that simply proved unwilling to share “control” of activities with the newcomers. An even more open conflict emerged in the case of Support to Privatization II, when the prolongation of a previous USAID project (aggravated by the somewhat ambiguous behavior of Moldovan authorities) caused major disagreements with the Tacis contractor on the allocation of the (limited) portfolio of enterprises selected for privatization.

Political endorsement. Tacis activities in PSD enjoyed a fairly strong political endorsement, as the prioritization of needs (support to the restructuring of large companies, emphasis on export promotion) substantially coincided with the prevailing views within the Moldovan government. ARIA still enjoys considerable political support and MEPO is even more “well connected”, being placed under the Prime Minister’s office. The main exception to this generally favorable pattern is represented by the Support to Privatization II project. The project was indeed launched when there was a government as well as a parliamentary majority supportive of tender privatization, but such a political support vanished subsequently. The decision to extend the project in early 2000 was based on the perception that the situation could improve but, in the end, it proved erroneous, as the Moldovan Parliament confirmed its opposition to the privatization of enterprises in “strategic sectors”.

Timing and sequencing of actions. Tacis activities in PSD have been implemented with a reasonable degree of timeliness and with the right sequencing of actions. In privatization, Tacis was swift in seizing the window of opportunity opened by the new reformist-oriented Government in March 1998: as soon as tender privatization seemed possible, funds were quickly re-allocated from an aborted initiative and in September 1998 the contractor was already in the field. The subsequent problems that severely undermined the initiative have nothing to do with the project preparation phase. Also, the cancellation of the

first initiative with the Competitiveness and Productivity Center included in the 1996-97 AP and its postponement to the 1998-99 AP proved rightly timed. As the poor disbursement record of the parallel PSD II World Bank project clearly demonstrates, the Center took longer than expected to get fully on track and additional Tacis resources could have probably contributed to overstretch an already limited absorptive capacity in the beneficiary institution. As for sequencing, the Support to MEPO mainstream project included in the 1998-99 AP was adequately prepared by two specific EES projects (plus an earlier one generally aimed at assessing the possible configuration of an export promotion system), and this should ensure a high degree of relevance of activities to be undertaken under the new initiative.

Effectiveness. Enterprise restructuring activities have been quite effective, with some outstanding results in some projects. On the contrary, tangible achievements in privatization initiatives were very limited. Initiatives financed by facilities such as the PIP or the ESSN were not implemented at a sufficiently large scale to allow for any definite assessment, but the limited evidence available suggests a certain degree of success in facilitating contacts with EU partners. No comments are yet possible in the area of export promotion, where the Support to MEPO project has just started and the previous EES initiatives must be regarded as mere preparatory actions.

Privatization clearly emerges as a problem area since neither Support to Privatization I nor the follow up project covering the second privatization drive reached any notable results. In the first case, the project team tried to adapt to a difficult situation (with USAID already assisting the same beneficiary) by embarking in a series of initiatives (from legal advice to assistance in establishing the Stock Exchange) that in the end led to little concrete results. The second privatization exercise was made ineffective by the already mentioned political problems and by the rivalry with a parallel USAID project. Other project activities were carried out more or less as planned (assistance to the remaining small-scale privatization, institution strengthening to the benefit of the Privatization Department).

The enterprise restructuring projects implemented in cooperation with ARIA have proved fairly successful. Experience in other CIS countries indicates that enterprise specific turnaround exercises have a 25-30% success ratio, with another 25-30% of companies being outright failures and the remaining being intermediate cases¹⁴. As detailed in Box 7.1, cumulative results from the two enterprise restructuring projects attached to ARIA appear comparatively better, with half of the supported companies experiencing significant improvements and only two or three cases (out of a total of 14 companies assisted) to be regarded as failures. Excellent results were also achieved by the Support to Conversion II project, possibly the best enterprise restructuring exercise implemented by Tacis in Moldova. Indeed, one of the assisted firms was able to establish two joint ventures with leading EU firms in high-tech sectors, thereby demonstrating the possibility of preserving highly skilled activities in the country. As for the institutional strengthening components of projects attached to ARIA, their degree of effectiveness is harder to assess. While Tacis certainly contributed to train some staff and provided ideas and suggestions for future action, we are skeptical that this was a fundamental contribution towards the strengthening of the Agency and we are more inclined to believe that the work done in the field with Tacis consultants substantially helped to achieve the objective.

¹⁴ For some evidence on Russia, see Tacis, *Evaluation of Tacis Enterprise Restructuring and Private Sector Development Program in the Russian Federation*, March 1999 (section 4 and 5).

Box 6.1 Results Achieved in Enterprises Restructuring Projects

A total of 14 enterprises were assisted by Tacis through the two restructuring projects attached to ARIA. During fieldwork the evaluation team visited five of these companies. Information on the others was provided by ARIA staff and, whenever deemed appropriate, cross checked with other sources. Results from this small survey are summarized below.

Support to ARIA I

- *Moldcarton*. This producer of paperboard benefited from the introduction of cost-accounting techniques but, due to uncertainties related to the ownership structure (after having been selected for privatization several times, the company is still in state hands), concrete results have been mixed. The company was also assisted by GTZ and by the World Bank within the framework of the PSD II project.
- *Macon*. When it entered the assistance program, this producer of building materials had some US\$ 1.5 million of overdue debts and was on the verge of bankruptcy. Over a 10-month period the debt was rescheduled, major changes were introduced in operating modalities, and a new market-oriented mentality began to emerge. The company is now posting profits and has embarked on a quality control program financed by the World Bank.
- *Dana*. This producer of garments was assisted in rescheduling outstanding debt and in developing a marketing strategy. The company is now operating at 95% of capacity and it has been able to start subcontracting work for US clients.
- *Faconis*. Restructuring efforts did not achieve tangible results and this cannery is now undergoing liquidation. However, some spin-off companies have been created using existing premises and machinery and some 50% of the previous work force is reportedly working in these new initiatives.
- *Agromasina*. A producer of agricultural machinery and implements, also undergoing liquidation. Existing premises were rented out to establish a business incubator and the new activities are now being assisted by GTZ, within the framework of PSD II project.
- *Incomlac*. Despite growing competition from newly established companies, this dairy producer was brought back to life and is now posting profits. After completing the restructuring program, the company received a US\$ 1 million loan for a new ice-cream line and is building a new milk collection network in the countryside.

Support to ARIA II

- *Nord Mobila*. Before enrolling in the program this furniture maker was on the verge of bankruptcy, with US\$ 2 million overdue debt and heavy involvement in barter operations. The company received substantial assistance in marketing and product re-engineering techniques. As a result, production costs were cut by 30%, 16 new innovative products were introduced, receivables were collected, and barter trade was substantially reduced. Now that the financial situation has substantially improved, the company is trying to develop a retail network in Moldova and Ukraine.
- *Yeastmaking Plant – Drozhdii*. After receiving extensive training in marketing and energy saving techniques, the company is now entering a joint venture with a Dutch partner that is supposed to provide a new production line. With assistance from the new partner, the company is also considering export sales opportunities that would definitely improve profitability.
- *Pielart*. A producer of artificial leather that underwent a complete management turnaround. The debt was rescheduled, there are plans to get rid of social assets, and a subcontracting relationship

was established with an Italian company that is also providing some equipment on a leasing basis. If everything goes OK, this initial agreement could result in a full fledged joint venture.

- *Moldovahydromash*. This typical Soviet-style producer of machinery dropped out of the first Tacis project but eventually accepted to be assisted by ARIA and EU consultants under the second initiative. Strong resistance to change from the management was finally overcome and some activities were cut while others originated three spin-offs. After debt rescheduling, *Moldovahydromash* is again posting profits and has plans to resume exports. The total workforce (spin-offs included) is now around 1,600, compared with the previous 3,700.
- *Lapte*. This dairy company was in fairly good financial conditions (no debt rescheduling required) and assistance concentrated in marketing-related aspects. The Tacis project helped it to get in touch with a French industrial partner who is now in the process of acquiring a controlling stake as a prelude to substantial investment. The company is also participating in the management training program financed by the World Bank as part of the PSD II project.
- *Building Materials – Straseni*. The company was convinced to concentrate in the most promising business lines (insulation materials) and received assistance in energy-saving techniques. Initially in very bad financial conditions, the company is now on firmer ground, thanks to a 30% cut in costs and a 300% increase in sales. Negotiations for a joint venture agreement with a Belgian company are underway.
- *Zahar Falesti*. This leading producer of sugar had its debts restructured and underwent management training and organizational restructuring. After posting the first positive results, with an increase in sales, the company was bought by Germany's *Suedzucker*, a key player in this sector interested in taking advantage of favorable conditions for sugar beet growing in Moldova.
- *Talmaz*. A somewhat cavalier move into the agricultural sector that proved an outright failure. *Talmaz* was a *kolkhoz* including several agro-processing plants and the management sought assistance as a tactical move to escape bankruptcy, rather than for a genuine willingness to restructure. The project soon aborted and the *kolkhoz* was subsequently put in liquidation.

Impact. The impact of Tacis activities is a mixed picture. The success stories in enterprise restructuring might have a lighthouse effect, encouraging other companies to seek assistance from ARIA, and some claim that this effect is already visible as the word spreads about ARIA's effectiveness in bringing dead companies back to life. Even more importantly, Tacis activities in this field are attracting non negligible foreign direct investment into Moldova. If only Support to ARIA II is considered, of the eight companies participating to the project, three have entered in joint venture with a Western industrial partner, while a fourth one has established a form of industrial cooperation that may eventually result in a joint venture. It can be roughly estimated that a US\$ 3 to 5 million worth of industrial investments could take place. Also Support to Conversion II is expected to result in substantial FDI inflow.

On the other hand, Tacis projects in privatization failed to have any appreciable impact. It must be noted that even if accomplished as originally intended, Privatization II was unlikely to have the expected impact on the Moldovan economy. By 1999 the incumbent management of many companies to be privatized had already decided to scrap most of their assets. In other cases, key business contacts and even brand names were simply passed on to privately-owned "sister companies"¹⁵. In other cases, operating conditions had simply deteriorated too much. According to sector specialists, of all the large wineries still in state hands, no more than two, possibly three, have at this stage a reasonable chance of surviving. The situation was reportedly better in the tobacco sector (which is considered taboo by Parliament), where most of the candidates for privatization have good market prospects.

Sustainability. The results achieved in enterprise restructuring and conversion activities generally appear sustainable. The companies that successfully accomplished the isolation program now are back on track and managed to survive even the Russian crisis. Also the spin-offs generated by those that had to undergo liquidation seem to have good market prospects and a reasonable chance of surviving in the future. Different is the case for the sustainability of the institutions that received Tacis assistance. ARIA sustainability remains to be seen. When the agency was established, it operated based on a 75% support from donors. ARIA now claims to be able to become financially sustainable within two years. They have already entered the neighboring Ukrainian market for restructuring services and have similar plans for Romania and Uzbekistan. ARIA certainly has a chance to become a leading player in the business consulting market, if economic growth resumes and a sizeable liquid market for such services is created. As for the capacity building results of Privatization I, whatever they were, they were soon lost because of the disbandment of the Ministry. It seems likely that the same will happen to the institutional support provided to the Privatization Department, that appears bound to undergo reshufflings for political reasons every 2-3 years.

¹⁵ *Cricova*, for instance, the most renowned state-owned winery in Moldova, was practically cloned into a privately-owned sister company *Cricova-Acorex* sitting on the opposite hill and freely marketing "*Cricova*" products.

7. PUBLIC ADMINISTRATION AND SOCIAL SECTORS

7.1 Background

Reform of the Government Machinery. Moldova is still in the process of re-orienting its state machinery from the old “command mode” to the regulatory and promotional role typical of democratic market economies. This involves redefining responsibilities, slimming down the civil service, streamlining government organization, and reaching an effective balance of responsibilities between the central and the local governments (the latter being a particularly touchy issue in Moldova, as it easily overlaps with ethnic considerations). While for several years little progress was achieved, starting with 1998 Moldovan authorities have adopted some important measures. A first major reform was the reorganization of the country’s previous 40 *raion* and 4 municipalities into 9 larger regions (*judet*), one municipality (Chisinau) and two special-status territorial units (Gagauzia and Transnistria). As a consequence, government staff was expected to be sharply reduced and the provision of local public services made substantially cheaper. As for the central government, a slow process of downsizing and consolidation of departments and ministries has begun. In an effort to contain expenditures, the 1999 budget included a partial hiring freeze according to which no more than one civil servant could be hired for each two leaving the civil service. In addition, the Ministry of Agriculture’s local departments were substantially cut, the Customs Service was merged into the Ministry of Finance, and the Ministry of Privatization was also merged into the Ministry of Economic Affairs.

The problem of reforming the state machinery overlaps with issues in macroeconomic management and in foreign relations. Moldova’s public finances have traditionally suffered from poor tax enforcement *vis-à-vis* state controlled or politically well connected large firms and from uncollected custom duties due to extensive smuggling with Ukraine through Transnistria. To tackle these problems, a special “large taxpayers unit” was established with the specific purpose of recovering overdue tax payments, while a customs system is being implemented on the “internal” border with Transnistria. In the area of foreign relations, after independence Moldova had to build from scratch its foreign service and, even more important, had to create the capabilities required to deal with a whole range of new and unfamiliar issues in foreign economic relations (negotiations with international financial institutions, WTO accession, coordination of aid programs, etc.). The problem has been addressed through the establishment and the progressive building up of dedicated departments and task forces within various ministries (Foreign Affairs, but also sectoral ministries), often with substantial support from the donor community.

Reform of the Welfare State - Social Security. Moldova inherited the complex Soviet system of social security. The distinctive features of this system, jointly managed by the state, enterprises and trade unions, were: a low statutory retirement age, low pension benefits *vis-à-vis* average wages, absence of any indexation mechanisms, substantial social benefits with easy access (e.g. kindergartens provided for free by state enterprises), and non-existent or rudimentary social assistance schemes targeted at vulnerable groups (e.g. the unemployed, who were not supposed to exist). In 1991, Moldova established its new national system, the Social Fund, comprising three main components: i) the Pensions and Benefits Fund, also providing for disability pensions and social pensions for those with incomplete social contributions, ii) the Social Security Fund, providing mainly maternity and temporary

disability benefits, and iii) the Employment Assistance Fund, aimed at supporting the unemployed through the collection of a payroll tax.

By mid 1996, the new system had already proved financially unsustainable, because of the survival of some features of the former Soviet system (e.g. the Social Security Fund was still managed in a “socialist way” by the trade unions), but above all because of an increasingly higher dependency ratio (i.e. the number of pensioners as regards the number of contributors) and of other factors related to the unfavorable economic conditions (non-payment of social insurance contributions and incomplete tax collection, the growth of the informal economy, the rise in unemployment). This inevitably resulted in the delayed payment of pensions and of other benefits. The problem was aggravated by the increased budgetary discipline required by international financial institutions, and state transfers to the Social Fund had to be drastically cut from almost 40% in 1993 to less than 4% in 1996.

The impending crisis prompted an intervention of the World Bank, that assumed a leading role in shaping the future structure of the Moldovan pension system. The idea that emerged was to introduce a capitalized pension system aimed at establishing an effective social protection network for the elderly, reducing the state’s responsibility as a provider of social benefits, and upgrading pensions through the investment of the retirement savings. Eventually, a new law involving an increased retirement age, the elimination of certain privileges, and increased individual contributions with benefit entitlements was passed in 1998. Moreover, to reduce evasion, the collection of contributions to the Social Fund has been taken over by the Ministry of Finance. However, concrete implementation of these measures is still lagging behind and the financial situation of the Social Fund remains bleak.

Reform of the Welfare State – Health System. Since independence health conditions in Moldova have substantially deteriorated. The incidence of almost all diseases has rapidly increased. This mainly depends on the worsened economic situation, resulting in poor nutrition and living conditions (lack of heating, unsafe water, etc). Other related causes include: low doctor attendance rates, the inability of most individuals to purchase necessary medicines, and the general deterioration of services provided by the health system.

In Soviet times health assistance was provided both by enterprises and by the state. The latter specialized in hospital care, while primary health care, emergency care and general practice were left to enterprises (and regarded as fringe benefits by their employees). As all other sectors, the health system was over-manned and over extended: in the early 1990s Moldova had one of the most extensive networks of health facilities and one of the largest health staff in the whole Europe. However, resource allocation was totally inefficient, and management principles hardly existent. After independence Moldovan authorities had to face the need of restructuring such an expensive system, under the double pressure of deteriorating health conditions and increasingly severe budget constraints. Overtime, expenditures for health have remained broadly the same relative to the GDP, but since the latter has been declining dramatically, money actually devoted to health services has decreased significantly: in 1998 per capita public expenditure for health amounted to a meager US\$10.5, and half of this figure was spent on utilities bill (electricity, heating). Only a small share of resources was left for emergency care, preventive care and immunizations, curative services provided by general practitioners and essential pharmaceuticals.

In 1999 the need to drastically cut the health budget by 35% to meet budgetary

requirements imposed by international financial institutions increased the sense of urgency to implement structural changes in the system. In order to obtain resources to carry out the needed changes, the Government agreed with the World Bank and other donors (UNICEF, Tacis, WHO) on a comprehensive reform strategy. This envisages: the strengthening of the primary health care network, the restructuring of the curative tertiary level network, the official participation of the private sector in health care, and the introduction of organizational changes to clearly separate the procurement and provider functions.

Reform of the Educational System. Moldova inherited an educational system characterized by a proliferation of specialized institutions with limited links among them and a separation between research and education. In the Soviet system it was the plan that created the link between educational institutions and productive activities. Certainly, courses and curricula were broadly adapted to the needs of the planned economy, but since unemployment was not allowed, people often found jobs irrespective of the skills acquired through formal education. In a way, it can be said that productive activities had to adapt to what was provided by educational institutions rather than the opposite. The system was inevitably bound to collapse when transition to the market began: the skills produced by existing institutions were more and more inappropriate to the requirements of the labor market and a severe lack of capabilities in several important areas (economics, management, social sciences, just to mention a few) was clearly exposed. While recognizing the seriousness of the problem, so far Moldovan authorities have done little to correct the situation. Indeed, early government plans for a general overhaul program had to be abandoned when education became the first victim of cuts in public expenditure, and since then priorities have not been altered. At present, teachers are insufficiently paid and often with delays, and there has been no investment in premises or equipment maintenance for a long while. Schools usually lack any heating in winter and families in villages often collect money to pay for the teachers' immediate necessities.

7.2 Tacis Activities

Overview. During the second half of the 1990s, activities in public administration and social sectors attracted an increasing share of Tacis allocations to Moldova. This is not due to allocations to mainstream projects, that remained broadly constant, but rather to the increasingly extensive recourse to various facilities. All in all, total Tacis allocations during the period under examination amounted to about € 19.6 million, compared with less than € 10 million in the first half of the 1990s.

Mainstream Projects. During the period under evaluation, Tacis Action Programs included eight mainstream projects (plus a project addendum), totaling € 12 million. These projects are listed in Table 7.1 and briefly described below:

- ***Reform of the Moldovan Social Security System with a Particular Attention to the Pension System.*** (“Support to Social Security Reform”): included in the 1995 Action Program and carried out over the 1996-1999 period, this € 1.5 million project was attached to the Ministry of Labor, Social Protection and Family. Primarily a policy and legal advice operation aimed at assisting the social security and pension reform, the project also included some pilot initiatives to test the new system at the local level. During implementation the project also got involved in some “emergency pilot projects” aimed at tackling urgent needs of vulnerable groups (e.g. the distribution of free meals to

- pensioners and needy children);
- **Support to Primary Health Care Development and Health Management Strengthening.** (“Support to Health Reform”): included in the 1995 AP and carried out over the 1996-1997 period, this project was attached to the Ministry of Health. With a budget of € 0.5 million, it had two main components. The first was aimed at the development of primary health care, mainly through the preparation of a strategic plan and of a report on training needs for family doctors. The second component focused on broader health management issues, with the preparation of an action plan. For each component, task forces comprising key professionals and other stakeholders were set up, in an attempt to build consensus on project activities;
 - **Staff Development and Improvements to the Functioning of the Public Administration in Moldova.** (“Support to Public Administration Reform”): included in the 1996-97 AP, the project had a budget of € 1.8 million. Implemented over the 1998-2000 period, the initiative was attached to the Personnel Policy Directorate (PPD), a government agency in charge of coordinating the management of civil servants. Intended to assist in the establishment of an improved state machinery, primarily through the restructuring of five ministries, the project was implemented at a time of budget cuts and also got involved in payroll downsizing exercises;
 - **Reform of the Moldovan System of Vocational Education and Training.** (“Support to Vocational Education Reform”): included in the 1996-97 AP, this € 1.5 million project was carried out in 1998-99. Attached to the Ministry of Education and Science, the initiative comprised three major components: i) the formulation of an overall reform, ii) the development of manuals and guidelines for the training of teachers, and iii) the testing of new curricula and training methodologies through pilot exercises in two vocational schools (also assisted with the provision of equipment and teaching aids);
 - **Support to Higher Education in Economics I** (“Support to Higher Education in Economics I”): included in the 1996-97 Action Program, this € 1.0 million project was carried out over the 1997-1999 period. Implemented in cooperation with the Academy of Economic Sciences and five other higher education institutions, the project was mainly aimed at establishing an undergraduate study program in economics, through the development of new curricula and the re-training of teachers. Furthermore, the project was involved in supporting the National Association of Economists and in creating national and international links and networks between universities and teachers in economics;
 - **Support to Higher Education in Economics II** (“Support to Higher Education in Economics II”): a project (actually, a project addendum) logically stemming from the previous similar initiative and aimed at establishing an MBA program in line with European standards. Attached again to the Academy of Economic Sciences, this € 0.8 million initiative was funded with resources left from the 1996-97 Action Program;
 - **Strengthening of Regional Public Administration.** (“Support to Regional Administration Reform”): included in the 1998-99 AP, this € 1.2 million project is to be attached at the State Chancery. The initiative will assist the Government in the implementation of the recent reform of regional administration, that involved a reduction in the number of regions and the consolidation of their functions. More specifically, Tacis is to provide advice: i) to fine tune the division of labor between the central government and regional administrations, ii) to develop model organizational structures at the regional level, iii) to develop a system governing financial flows between the center and the regions. Due to start in the second half of 2000, the project will have a duration of 24 months;
 - **Provision of Advice for the Partnership and Cooperation Agreement Implementation.** (“Implementation of the PCA”): included in the 1998-99 AP, this fairly large project (€

2.5 million) is aimed at assisting the Moldovan authorities in the implementation of the PCA. Attached to the Department for European Integration within the Ministry of Economic Affairs and Reform, the project is a classical institution strengthening initiative, whose specific activities are to be based on inputs provided by the PCA Cooperation Committee. Started in April 2000, the project will have a duration of 30 months;

- **Support to the Ministry of Health** (“Support to Health Reform II”): included in the 1998-99 AP, this € 1 million project is to be attached at the Ministry of Health and will have a duration of 18 months. Project activities include: i) the provision of advice to the Ministry on a variety of health reform related issues (cost-cutting measures, financial management, potential for privatization and legal framework required for the private provision of health services), and ii) the formulation of a sort of cost benefit exercise on the implementation of the health insurance law. A third component is intended to complement the Tacis initiative in regional administration reform, by supporting capacity building at the *judet* level.

Table 7.1 Mainstream Projects in Public Administration and Social Sectors

Projects	Action Program	Budget (€ million)	Status
Support to Social Security Reform	1995	1.5	Completed
Support to Health Reform I	1995	0.5	Completed
Support to Public Administration Reform	1996-97	1.8	Completed
Support to Vocational Education Reform	1996-97	1.5	Completed
Support to Higher Education in Economics I	1996-97	1.0	Completed
Support to Higher Education in Economics II	1996-97	0.8	Tendered
Support to Regional Administration Reform	1998-99	1.2	Tendered
Implementation of the PCA	1998-99	2.4	Tendered
Support to Health Reform II	1998-99	1.3	Tendered
Total		12.0	

Other Tacis Initiatives. Public administration and social sectors is the area where Tacis facilities have been most intensively used. All in all, about 50 initiatives were launched, with a total budget in the order of € 7.6 million. In particular:

- some 15 policy and legal advice projects (with individual budgets typically of € 100-200,000) were financed by the **European Expertise Service**. EES projects were extensively used in the area of foreign relations broadly defined, with two initiatives supporting PCA implementation, two assisting in the WTO accession process, two more assisting in the area of aid coordination and another two involved in other aspects of foreign economic relations (e.g. a macroeconomic scenario to simulate the impact of free trade with the EU). Public administration reform (including management issues in the civil service) was assisted by three EES projects while another initiative focused on health reform issues. Finally, as is customary in CIS countries, the EES provided financing through two successive projects for the publication of the *Moldovan Economic Trends* bulletin;
- in the area of customs and border control, **Eurocustoms** assisted Moldovan authorities in the drafting of the Customs Code as well as in the improvement of customs control and transit systems, while a large (€ 1.0 million) **Cross Border Cooperation** project will

support the construction of two customs and border posts in Leuseni and Ungheni, at the border with Romania;

- over 20 cooperation projects (with a total budget in excess of € 2.4 million) have been implemented through the **Tempus** program. These projects covered a variety of subjects (from law studies to applied sciences) and involved several state universities across the country;
- finally two initiatives (in addition to an earlier mainstream project) focused on developments in Moldova's labor market, one financed by the **Partnership and Cooperation Program** and the other financed by the **European Training Foundation NIS Framework Program**.

7.3 Other Donor's Activities

World Bank. In the social sectors World Bank activities started with the **General Education Project**. Launched in April 1997 with a budget of US\$ 16.8 million, the project was intended to assist the general overhaul of Moldova's educational system, through the development and introduction of new curricula, teaching materials & methodologies, and the parallel re-training of teachers. The project proved to be very problematic as, in practice, reform in the education sector remained a low priority for Moldovan authorities. After three years, the loan is still largely not disbursed and the Bank itself had to assess project performance as totally unsatisfactory.

Recently, the World Bank launched two additional initiatives supporting reform in the social sectors. These include:

- the **Social Protection Management Project**, approved in June 1999 with a US\$ 11.1 million budget. Basically a large scale institution strengthening operation (with minor investment components), the project is aimed at assisting Moldovan authorities in the implementation of the 1998 pension reform;
- the **Health Sector Reform Project**, approved in May 2000 with a US\$ 10 million budget. Also aimed at supporting recent government reform efforts, the project involves a range of technical assistance activities together with the establishment of a "health investment fund" to improve the quality of health care services. In line with the recent regional administration reform, the project is expected to devote some resources to health structures at the *judet* level.

Both initiatives are in their early stages of implementation and disbursements are still limited.

USAID. USAID mainly concentrated its activities in the area of macroeconomic management and fiscal reform. The **Fiscal Reform Program** (approved in 1993, with a budget of US\$ 1.95 million) provided advisory and training services to the Ministry of Finance in a wide range of areas (from revenue forecasting to computerization of tax collection). Interestingly enough, the project also assisted the Moldovan Parliament in developing analytic and drafting capabilities in taxation and budgetary matters, with the establishment of a dedicated unit (the Center for Budgetary and Financial Analysis). USAID also played a somewhat minor role in the **education sector**. Through funding provided to the Eurasia Foundation, in 1996-97 assistance was provided for the launch of an MBA program while the provision of basic training in management and economics was for long one of the mainstays of the USAID-sponsored MACIP network.

UN Agencies. The *World Health Organization* has focused on providing technical advice to the Government for the health sector reform. This involved, *inter alia*, the preparation of a long term strategy document (“Strategy for Healthcare for 1997-2003”) and of a short term action program for 1998-1999. *UNDP* has been particularly active in the area of public administration reform, through two successive “Governance and Democracy projects”. The first initiative, implemented in cooperation with the Ministry of Justice, focused on the strengthening of the judiciary, through a combination of training and policy advice activities. The second project focused on the regional administration reform, again with a combination of training and advice activities at both central and regional levels. Finally, *UNICEF* concentrated in the area of children’s health, with initiatives regarding immunization campaigns, safe motherhood and nutrition.

7.4 Tacis Activities – Evaluation

Relevance. Tacis actions were relevant to the country’s most important needs. Both government and social sector reform were addressed. In education, Tacis did not embark in any attempt to comprehensively reform the existing system, as political support for such an action appeared rather shaky, and concentrated in vocational training and university exchange programs. Only the importance attached (also in terms of allocation of funds) to improving education in economics, while in line with the assessment of needs made during the early stages of transition, does not seem any longer fully justified. The selection of counterparts was also generally appropriate, with a couple of exceptions, while a crucial issue for Tacis was (and still is) to ensure good operational coordination with parallel World Bank lending initiatives.

Prioritization of needs and allocation of resources. Tacis prioritization of activities in public administration and social sectors is largely appropriate. The three priority areas selected by Tacis, streamlining of the government machinery, social security, and health sector reform, were almost unanimously recognized by IFI, donors and Moldovan authorities as those most urgently in need of reform. The other area often indicated as a priority, macroeconomic management, was extensively covered by other donors and, therefore, Tacis confined itself to some limited (although useful) actions under the Eurocustoms facility. The allocation of resources broadly reflects the above prioritization of needs. In a broader historical perspective, public administration reform was possibly allocated too much financing, but this mainly depends on the fact that the Support to Public Administration Reform project was a sort of a duplication of an earlier similar project included in the 1993-94 Action Program that had failed to achieve most of its objectives.

In education Tacis wisely avoided tackling the complex issue of a comprehensive reform and focused on two specific areas, vocational training and university education in economics and management sciences, that seemed the most urgent needs when transition began. While the priority given to enhancing vocational training is still undisputed, in present conditions the importance attached to higher education in economics appears somewhat overstated. Tacis proved right in indicating in its programming documents that initiatives in education were at a serious risk of failure because of the limited commitment to reform displayed by the Moldovan authorities, and in this context the extensive recourse to the Tempus facility proved appropriate. Indeed, as clearly indicated by previous evaluation

studies¹⁶, one of the program's main strengths is its ability to quickly reach out at the university level, by-passing the complex hierarchy of ministries, and this is exactly what is required in Moldova's present conditions.

It was in activities aimed at assisting the Moldovan government in foreign relations and in the participation in international organizations (WTO accession, aid management, PCA implementation), that Tacis found a niche not only highly relevant to the country's needs, but also particularly well suited to the kind of assistance that it can provide. This was done through a number of successive EES projects and constitutes an example of how an imaginative use of this flexible instrument can address important problems not retained in programming documents.

Appropriateness of counterparts. The selection of partner organizations in public administration and social sector reform was fully appropriate, with the notable exception of the Support to Public Administration Reform project, attached to the Personnel Policy Department (PPD). As the project had wide ranging objectives and several different components, a specialized entity such as the PPD was not the most appropriate counterpart. The PPD is basically a technical body responsible for managing government personnel and does not have the political clout to influence reform in politically sensitive areas, such as the reform of key ministries. It is worth noticing that preparatory work for the project duly emphasized the importance of directly interacting with the State Chancery, as a key factor for success. The following decision of concentrating on the PPD was probably influenced by the desire of providing institutional strengthening to an entity already supported by Tacis in the past (as well as, possibly, by the Chancery's refusal to take part in a previous 1993-94 Tacis initiative). Other aspects in the institutional setting were also not adequate. In particular, the training modules prepared by the project team were later transferred to the Academy of Public Administration (APA), which is the body responsible for their implementation. But APA was never involved in their development, that was directly followed by the PPD. As even the PPD acknowledged, it would have been more appropriate if APA had been directly involved in the development of various materials, rather than being simply asked to implement results for which they feel little sense of ownership.

A somewhat peculiar case is represented by the Academy of Economic Studies, that was supported by various Tacis projects. Later Tacis programming documents did point out the risk that excessively prolonged support could prompt some negative reaction from state universities or from the Ministry. With the Support to Higher Education in Economics I project the problem was somewhat eased in the design phase, by including also five state universities as partner organizations. Nevertheless, during implementation a number of complaints were voiced by these universities, feeling somewhat discriminated. However, the same universities are the main beneficiaries of the many Tempus projects implemented in Moldova. In a sense, it seems that financing provided through facilities has compensated for the unbalanced allocation of mainstream funds, thereby avoiding major conflict between Tacis and the university establishment.

Coordination with other donors. Coordination with other donors has been generally good and major overlapping of activities has been avoided. This was achieved both at the macro-level, with a broad agreement on the division of labor in the main policy areas, and at

¹⁶ Tacis, *Tempus in the NIS and Mongolia - Evaluation Report*, March 1998.

the institutional level, with several examples of good coordination of contributions coming from different donors within the same ministry. This was particularly the case with the Ministry of Health, that managed to keep the activities of Tacis, WHO and UNICEF well coordinated through periodical meetings. However, problems did arise when it came to the specific contents of the reforms proposed, in particular when the World Bank was involved. In the case of social security reform, the proposals formulated by the Tacis project team clashed with the line proposed by the Bank, and similar problems in health reform were avoided by the Tacis contractor skillfully leaving all doors open and limiting itself to the proposal of a full menu of possible policy options. In a similar vein, the Tacis project working on central government reform had at least partially to adapt to the new priorities (i.e. cut the payroll first) resulting from resumed negotiations with the IMF.

Political endorsement. Technical assistance initiatives are structurally at a disadvantage in eliciting political support compared with other initiatives that can mobilize investment money. There is an appreciable difference between the way in which Tacis projects were received and supported whenever their objective could be achieved without any complementary financing (e.g. WTO accession, PCA implementation, etc.) and the attitude displayed by beneficiaries when the proposed reforms involved financial means that Tacis was in no position to provide. In this case, the partner organizations did not necessarily prove interested and collaborative, at least until it was possible to show the logical link between what Tacis was doing and the concrete possibility of getting some real financing from other sources. For instance, interest in Tacis activities in social security and health reforms was revived as soon as it became clear that there was World Bank financing likely to come in the same areas, and/or that reform was needed as a conditionality for structural adjustment lending (pension reform for the World Bank SAL II, reform of the Government machinery for the IMF second EEF tranche). Without such a financial spur, any declaration of political endorsement in the project design phase is no guarantee for real political backing during project activities.

Timing and sequencing of actions. Timing and sequencing of actions has represented a key problem for Tacis. Traditional mainstream projects aimed at politically sensitive issues inevitably suffer from political instability. By the time the projects reach the implementation phase, key counterparts may have changed position, policy priorities may have been modified, and the overall political environment may have undergone a complete change. The two initiatives in health and social security reform conceived in the 1995 Action Program were particularly affected by this problem. When the two contractors simultaneously arrived in the field in September 1996, the country was in a situation of political stalemate while waiting for the presidential elections to take place, and a number of months had to be waited before substantive matters could be discussed with the new political counterparts. The Support to Public Administration Reform project experienced similar problems. The project started in January 1998, two months before the Parliamentary elections. In March a new majority went to power and resumed talks with the IMF. As a result, the political imperative was suddenly switched from a “better” organization of the Government machinery (reflected in the TOR) to the need for significant budget cuts to be achieved in a matter of few months. And the project found it hard to cope with the new priorities. The problems of timing encountered by mainstream projects were partly compensated by the extensive use of the “small project facilities” that usually proved able to start and implement activities at the right time (for instance, the EES aid coordination projects, timely implemented soon after Moldova was included among the “needy” countries by the OECD Development Committee).

During the last few years the even more crucial problem of better coordinating the sequencing of Tacis interventions with those of the World Bank has arisen, with some Tacis projects starting their activities well ahead of the Bank. When this happens, as it was partly the case with both the social security and the health projects, the risk of divergent policy recommendations emerges, with the ensuing problem of sending conflicting signals to beneficiaries. However, improving the sequencing of actions is not an easy task. Indeed, Tacis and the World Bank may well agree on selecting a given policy area as priority, but the coordination of their activities in operational terms is made difficult by the different programming processes and different time constraints.

Effectiveness. Tacis projects have been able to achieve their objective of influencing the reform process with varying degree of success, with small projects often proving more successful than large, mainstream initiatives. This is not to say that mainstream projects did not accomplish any results, but these were often confined to somewhat minor, mainly organizational aspects (a new law on the organizational structure of the Ministry of Labor was approved, as well as legislation on the Personnel Policy Department and on the status of civil servants). Some significant policy reform objectives were achieved (partly) by the Support to Health Reform I project, while the Support to Social Security Reform project suffered from conflicts with the World Bank. As for the Support to Public Administration Reform project, actions aimed at streamlining the government machinery resulted in only one (mainly cosmetic) merger of ministries, while the other ministries selected for restructuring have hardly modified their structure or operating modalities (for instance, the “business plans” prepared by the project team and intended to provide a sort of blueprint for future action were not even included in the year 2000 budget as had been planned). A positive exception is the Support to Vocational Education Reform project. In this case a comprehensive strategy for improving the system was defined, tested through two pilot exercises, and fully endorsed by the relevant Ministry.

In retrospect, it seems that one of the main causes for such a limited effectiveness was the inability to interact with key decision makers. Indeed, mainstream initiatives mainly focused on working with second-layer officials and did not pay sufficient attention to communication and public relation activities that could help in building political consensus around a given policy. This usually resulted in Tacis advice being approved by the relevant Ministry purely on technical grounds, without any visibility in the political debate. It has to be said, however, that the crucial importance of a “communication component” has been appreciated in later projects. The proposal formulated by the Support to the Public Administration Reform of introducing in the Moldovan administrative system the figure of the Permanent Secretary was accompanied by a parallel communication campaign and was widely reflected in the political debate. In a similar vein, the results of the Support to Vocational Education Reform project were presented at a national conference attended by the President and other key political figures. In other cases, effectiveness was somehow hampered by the operational approach adopted by Tacis contractors, that does seem fully appropriate to the circumstances. For instance, implementing the organizational restructuring of ministerial bodies following a bottom-up approach based on working groups is unlikely to be a workable solution in the Moldovan context, where hierarchical principles and mentality are still deeply entrenched and high ranking officials do not like to be told from their subordinates what should be done.

Based on the above, it comes then to little surprise that Tacis proved particularly effective in activities with a highly specific content, where no complementary financial support was needed, and where political communication requirements were minimal. This was generally the case for assistance implemented within the framework of the EES: such or such project team could prove more or less up to the job, but the initiatives in general managed to reach their intended objectives. For instance:

- thanks to the aid coordination projects, the management of aid flows was substantially improved, a cooperation agreement was signed with Denmark and closer relations were established with the Italian and Swedish governments;
- the WTO projects contributed to create a special department within the Ministry of Economic Affairs and provided valuable assistance in contacts with the WTO, so that the overall negotiation process was considerably shortened;
- after a false start with PCA I (misunderstandings with some government officials, delays, problems with the team leaders), the PCA II project managed to put together enough data and a first prioritization of issues to ease the following start of the mainstream project.

Impact. In general, the impact is modest. When policy advice was well received, approved by Government and turned into law by the Parliament (which was by far the most difficult part), very often either there was no financing available to implement reforms on a large scale, or other overriding factors contributed to make impact negligible. Some projects still have a good potential to generate impact in the future. This is the case, for instance, of the Support to Health Reform project, where the proposals have largely remained a dead letter and never went beyond the pilot phase because of lack of financing. But, the coming World Bank loan should substantially contribute to unlock the situation. In other cases, the results are clearly negative. In the area of civil service reform, despite all the efforts devoted (not only by Tacis) to cut the public payroll, over the last two years the number of civil servants has actually increased rather than decreased. Also, attempts at enhancing the quality of personnel through training sessions and study tours can only have a limited impact until the crucial aspect of how the personnel is selected in the first place is tackled (the Tacis project team tried to do something under this respect, but with little results). Even the merger between the Ministry of Privatization and the Ministry of Economic Affairs proved little more than a cosmetic move. The two organizations were indeed placed under the same minister, but the two staff remained separated and little synergies or cost savings were reportedly achieved.

Some noticeable impact is already visible or can be expected from Tacis activities implemented through some small projects facilities. Moldova's WTO membership is virtually reached and is now mainly a matter of political negotiations on a few remaining details (the main difficulty remaining Moldova's attitude towards the so called "cultural items clause"). Also, improved compliance with PCA requirements should lead to better relations with the EU, while aid coordination projects managed to mobilize non negligible funding.

If external circumstances have often hindered the possibility of appreciating an immediate tangible impact from Tacis activities, nevertheless Tacis substantially contributed to instill a mentality change in most of the beneficiaries. For instance, the Ministry of Health recognized that without external assistance it would have probably taken three-to-four more years to devise a reform of the health system. The same can be said for WTO negotiations. Some change in the policymaking process itself can be appreciated. In a number of partner organizations there is something of a new attitude towards participation and social dialogue. At least the need to consult the various interested groups and stakeholders is increasingly

acknowledged. A new tendency not to impose any longer policies from above, but to increasingly mediate among different positions and to assess the pros and cons of the various policy options can be noticed.

Sustainability. In government reform the results achieved are typically either policy or legal acts (a new law, a new strategy) or enhanced management capabilities within the beneficiary organization. While the sustainability of the first type of results is “simply” a matter of political will and ultimately depends on how wholeheartedly policymakers were persuaded of the validity of a given reform, the sustainability of the second type of results also depends on the ability to retain the human capital trained during the project. Paradoxically enough, technical assistance projects aimed at the public administration are often faced with a dramatic trade-off between effectiveness and sustainability. Because of their meager wages, civil servants receiving valuable training are offered a formidable incentive to leave the public sector and make a better living as a consultant or elsewhere in the private sector. In Moldova, there were cases of well trained staff leaving their jobs soon after project completion, therefore dramatically affecting sustainability. This outcome is even made more likely by project contractors usually selecting the most dynamic staff as their operational counterparts.

PART III
CONCLUSIONS

8. MAIN FINDINGS AND RECOMMENDATIONS

8.1 Introduction

In this Section we summarize the results of the analysis carried out in the preceding parts of the study and formulate the relevant recommendations for future Tacis actions. The main findings are presented in Section 8.2. Section 8.3 formulates some general recommendations regarding the overall country approach. Section 8.4 concentrates on sectoral aspects. Finally, section 8.5 contains some recommendations regarding horizontal issues.

8.2 Main Findings

The main results of the evaluation of Tacis activities in priority sectors are summarized in Table 8.1. Based on these findings, the following main conclusions can be drawn:

- the overall prioritization of needs and the ensuing allocation of resources were broadly appropriate, with some reservations. A substantial emphasis was placed on agriculture and, given the past and present structure of Moldova's economy, it could not have been otherwise. However, a growing disenchantment with the real (limited) potential for growth in this sector is reflected in progressively reduced allocations. Also, resources devoted to higher education in economics and management sciences and to certain aspects of public administration reform (the civil service), were probably on the high side. But in a country strategy perspective these are relatively minor aspects. Tacis was also broadly right in its negative priorities, with the decision to stay out of (or to devote only minor resources to) areas where no significant political commitment existed (general education reform) or that were already covered by other donors (macroeconomic management, advice on fundamental legal texts, etc.). In the case of SME development, the limited Tacis involvement also appears justified, as standard TA projects are not well suited to assist small businesses;
- in the majority of cases the partner organizations selected by Tacis were appropriate. The experience with newly established organizations led to widely divergent results. Whenever the new organizations had a well defined mandate, with operational if not "technical" responsibilities, as opposed to policy making, (e.g. ARIA, the WTO Department within the Ministry of Economic Affairs, the aid coordination unit) results were on whole positive: Tacis projects had the necessary support and were successfully implemented. On the other hand, the case of the Agency for the Restructuring of Agriculture clearly demonstrates that any attempt to bypass political resistance (and institutional inertia) by creating a sort of "client" institution is a dangerous experiment;
- several Tacis projects involved in politically sensitive areas suffered from the vagaries of Moldova's party politics (in particular, having proposals approved by the Parliament was not an easy job). But in some cases Tacis contractors also did not enjoy sufficient political backing from EU authorities. The "model" developed by the Orhei Pilot Privatization project could have been the best possible way of tackling the issue of land reform, but in any event there was no possibility that the Tacis contractor could win the battle against the

competing USAID project strongly supported by US representatives in Moldova. In few cases (e.g. Support to ARA), Tacis contractors were able to skillfully navigate in treacherous seas and to build consensus around their proposals along the way, but this sort of skills is not common;

- a good degree of coordination with other donors and international financial institutions was generally achieved at the “macro” level (to avoid the launch of simultaneous and unrelated initiatives in the same sector/policy area) and, in several cases, also at the “micro” level (with the establishment of satisfactory relations among the various donors working within the same institution). However, agreeing on the broad (or even detailed) division of labor does not imply coincidence of views. Often, when substantive matters were approached in sensitive areas (e.g. pension reform, restructuring and downsizing in ministries) different opinions about what should be done did emerge. In the case of projects to be implemented in parallel with World Bank initiatives, the problem was sometimes aggravated by the Bank initiatives arriving somewhat late, and trying to superimpose their views on what had already been agreed by Tacis with the counterparts;
- some of the most successful Tacis projects were EES initiatives launched in areas that were not even indicated in the Tacis programming documents (for example: aid coordination; even WTO accession received only cursory treatment in Indicative Programs and Action Programs). The same applies to some project components “invented on the spot” by some imaginative contractors (such as the amendments to the bankruptcy law or the introduction of land valuation techniques). Weaknesses in TOR and at the planning stage (as indicated by the level of analysis found in certain IP and AP) were somehow compensated by the presence of proactive Tacis representatives in the field;
- the basic features of the project management cycle of Tacis initiatives in Moldova do not display significant differences from what already noted in other CIS countries, with some extreme cases, both positive and negative. On the positive side: in a matter of months Tacis was able to field a sizeable project in privatization as soon as an opportunity window emerged. The project later failed, but the “time to market” was quite good. On the negative side, some projects have suffered more than usual from continuous changes in key personnel at headquarters and the Tacis Monitoring Unit (up to 4 different task managers and 3 expatriate monitors for one single project, with an average of one new task manager every year).

Tab. 8.1 Summary of Main Findings

	Agriculture	Private Sector Development	Public Administration & Social Sectors
Relevance - Prioritization of issues	Excessive dispersion on many subjects, with limited consistency overtime and lack of critical mass in any specific area	Mostly appropriate, with critical mass achieved in enterprise restructuring. Also negative priorities rightly selected.	Generally good with too much emphasis on high education in economics. Correct the decision to stay out of general education reform.
Relevance - Appropriateness of counterparts	Usually appropriate, with one major exception (ARA) and some doubtful cases	Counterparts were appropriate with only one exception (<i>Conversia</i>)	Generally good with one notable exception (PPD instead of State Chancery) and one doubtful case (Academy of Economic Studies)
Relevance - Coordination with other donors	Good coordination achieved with the World Bank and other donors. Conflict with USAID in land privatization	Good division of labor with IFI and other donors, with one case of conflict with USAID	Good division of labor (i.e. no overstepping on each other) but some differences of view with World Bank on substantive matters (pension reform)
Relevance - Political endorsement	Reasonably good, taking into account that land reform was one of the country's hot political issues	Generally good, sometimes (MEPO) even excellent. Only Privatization II suffered from opposition in Parliament	Usually good, but link between TA and IFI financing had to be constantly demonstrated.
Relevance - Timing and Sequencing of Actions	Timing usually appropriate with one exception (Agricultural Marketing). Possible problems in sequencing with World Bank projects delayed	Always appropriate, with one notable case of swift reaction to new opportunity (Privatization II)	Mainstream projects fielded too early compared with parallel financing from IFI. Small projects were timely implemented
Effectiveness	Generally low, with positive exceptions in business-oriented initiatives and some policy advice components of Support to ARA	Enterprise restructuring achievements were reasonably good, in line or better than what achieved in other CIS countries. No results in privatization.	EES projects and initiatives in education and vocational training were successful. More modest results in other areas.
Impact	Generally low also because of external factors (Russian crisis). Some impact visible in rural credit and liquidation procedures and some expected in development of land market	Enterprise restructuring exercises did spur non-negligible investment from foreign partners. No impact from privatization activities	Impact already visible in niche areas (WTO, aid coordination, etc.). Possible impact in social areas and education, unlikely in PA reform (but one important project just started)
Sustainability	Sustainability of results expected in business-oriented initiatives. Sustainability of Tacis-established organizations remains to be seen, but seems low.	Results achieved in enterprises appear sustainable. The sustainability of ARIA remains to be demonstrated.	Always at risk due to: possibility of policy reversals and, most importantly, possible departure of key civil servants trained by projects.

8.3 Recommendations – Overall Strategy

Volume of Allocations. Over the period under consideration Tacis yearly allocations to Moldova averaged around € 10 –12 million, with slightly higher figures in the 1998-99 Action Program. These are definitely meaningful amounts for a small country like Moldova, especially taking into account the limited absorptive capacity of some recipient institutions (for example, at a certain point ARA was the main counterpart of two simultaneous Tacis projects and was involved in a third, in addition to being the key counterpart in agriculture for the World Bank and receiving some additional support from bilateral sources). Overall, current levels of allocations appear adequate and could be maintained in the future. However, additional allocations could be justified if, exploiting whatever flexibility is offered by existing Tacis regulations, it were possible to associate “investment operations” (in, say, SME development or in the social sectors) to classical TA activities.

“Better” Donor Coordination. Two aspects are included under this heading, namely:

- cooperation with other donors and IFI is sometimes regarded *per se* as an indicator of relevance. However, Moldova’s experience demonstrates that this is not always the case. The failed experiment with ARA (where Tacis was a follower, rather than an initiator) is a clear indication of that. The emergence of a consensus view among donors does not exonerate Tacis from conducting its policy analysis and to derive the necessary implications from this;
- over the last few years there were several instances of inadequate sequencing between Tacis projects and parallel World Bank operations. This happened in the social sectors and is likely to happen again in agriculture with the Advice Centers project, whose World Bank sister project was recently (September 2000) postponed until Fall 2001. In order to avoid inconsistency in operational activities and disagreements on substantive matters, the Commission should try not to field Tacis projects until the parallel World Bank operations are already in the ground and their policy options have been fully clarified. This, however, may require significant changes in existing administrative procedures, to allow for a greater degree of flexibility in Tacis’ contractual obligations vis-à-vis contractors.

Continued Need for a Strong In-Country Presence. Some of the most successful Tacis projects were EES initiatives launched upon initiative from the Tacis structures in Moldova, who proactively managed to mobilize funds to address newly emerging issues and to exploit new opportunities. This is just an example of the crucial importance of a strong presence in the field. The entry into force of the PCA and the beginning of its practical implementation have created the conditions for an enhanced EU presence in the country, and indeed an office of the EU Delegation in Ukraine was eventually established in Chisinau. Such a reinforced presence could prove instrumental in addressing the problems of political endorsement from local counterparts as well as the above mentioned issue of better coordination with other donors and IFI (namely, the World Bank), by bringing to the negotiation table the full weight of EU institutions.

The Parliament as a Counterpart in Policy Reform. Unlike most CIS countries, Moldova features a relatively weak executive compared with the Parliament. Together with political fragmentation and instability, this does not ensure that decisions taken at the Government level are subsequently endorsed by the Parliament. Indeed, a number of Tacis initiatives experienced the fate of having their outputs approved by the Government and then blocked in Parliament. So far Tacis projects have been targeted exclusively at ministries and

other components of the executive branch but future actions should consider the involvement of the Parliament in the process. This may take various forms, from the establishment of some Tacis-sponsored think tank attached to the Parliament (as USAID did with reference to tax and budget matters), to the participation of Tacis experts in Parliament hearings where the rationale behind a given reform is illustrated in all its technical aspects.

8.4 Recommendations – Sectoral Considerations

SME Development. So far the theme of SME development has been a sort of negative priority for Tacis, and this was broadly right, given the features of Tacis instruments. Indeed, preparing one more policy blueprint for SME development or establishing another BCC in, say, Balti, would not have supported real growth in the sector. Still, the development of a lively SME sector remains a top priority for Moldova, in order to inject a little of vitality in an otherwise sleepy economy. Tacis planners should take advantage of the new opportunities offered by the recently approved Tacis regulation and seriously consider the possibility of including in future programs operationally oriented initiatives to support SME development. The menu of possible options is vast, ranging from the co-financing of small credit or equity financing facilities along with IFI (with Tacis covering the cost of management and the IFI providing the investment money, as recently done for instance in Kosovo), to the co-financing of the Savings and Credit Associations or of other mutual financial institutions (but paying great care in order not to provide incentives for free riding), to matching grant mechanisms, providing, say, a flat contribution to small entrepreneurs for their trips abroad to visit fairs, contact suppliers and the like (but access to this sort of facilities should be simple and direct, otherwise bureaucracy is going to discourage potential participants).

Reduced Emphasis on Agriculture in the Traditional Sense. The removal of agriculture from the priority areas in the 2000-2003 Indicative Program is broadly appropriate. The results so far achieved by traditional agricultural projects are below expectations and not in line with the resources allocated. Even more importantly, agriculture must be regarded as a sector structurally in decline, as there is no amount of Tacis or other donor funding that could succeed in finding the way to gainfully employ 40% of the labor force when not more than 10-15% could be enough. Despite this, Tacis planning documents reflect a view held by key officials that the promotion of rural development in the broad sense will certainly feature in decisions on future areas of intervention; this view is consistent with a transition not from planned economy to market economy, but from old to new economic structures. This is particularly the case of actions to support SME development, which to a large extent could be targeted at rural areas.

But Attention to the Environmental Problems of Land Reform. The land reform process has led to some new environmental problems (water pollution in villages) and contributed to exacerbate existing ones (soil erosion). So far, these aspects have been only marginally considered within the framework of environmentally-oriented initiatives and largely neglected in mainstream agricultural projects. However, the management of these aspects could have also important side effects in terms of improved farming techniques (energy saving, improved efficiency of nitrogen use, conservation of fertile soils and nutritional elements). As such, they should not be considered simply as environmental problems, but also seen as a way to improve farming efficiency and therefore be included in future initiatives in agriculture.

From Enterprise Restructuring to Industrial Cooperation. So far Tacis has concentrated enterprise restructuring initiatives in the provision of general management advice focused on few basic concepts: switch from production-oriented to market-oriented mentality, improved budgeting techniques and cost analyses, rationalization of production (in a few cases, also with emphasis on energy saving techniques). These activities were in line with the needs of privatized enterprises undergoing the first restructuring phase and could be effectively provided through standard TA projects. However, those enterprises that successfully survived their first restructuring now start having highly sector-specific (often product specific) needs that can hardly be fulfilled through the provision of fairly undifferentiated management advice, while they could be addressed through an enhanced cooperation with Western counterparts. Experience from other Eastern European countries (and also from other regions) shows that trade facilitation programs, participation to fairs, and company visits are expedient ways of fostering cross border cooperation and of easing the transfer of expertise. In this context, and taking also into account the emphasis placed on industrial cooperation by the PCA, Tacis should explore the possibility of launching an initiative acting as a catalyst for industrial cooperation between Moldovan firms and their European counterparts. The initiative could operate as a sort of facility, modeled after successful EU-sponsored projects in other countries (e.g. the Private Sector Development Project in Egypt or the TERF project in Russia) and designed to take also full account of the problems experienced by other enterprise support facilities (such as the PIP).

Discontinue Direct Assistance to Privatization. In Moldova Tacis initiatives in privatization have achieved very limited results. Privatization, and especially the tender privatization experimented in the late 1990s, is an area structurally exposed to swift changes in the mutable local political environment, and the risk of wasting resources while waiting for the green light on a certain privatization is simply too great. In addition, donor organizations are exposed to the risks associated with large commercial transactions, with allegations of conflict of interest for Tacis contractors always around the corner. In the future, Tacis should refrain from further direct interventions in this area and, in case, could usefully confine itself to the co-financing of initiatives undertaken by organizations such as the IFC or the EBRD, better equipped for the task and traditionally more commercially oriented.

Continued Prudence in Education. Tacis strategy documents have always consistently highlighted the risks of embarking in education reform activities in present conditions. The situation of educational services has become dramatic and together with deteriorating economic conditions this has led to a sharp decrease of all educational indicators, with consequences that will be felt for generations. The revival of the educational system represents therefore a priority for Moldova. However, to be of any real use, activities in this sector would require substantial financial backing and full political endorsement. Until both these pre-conditions are met Tacis should maintain its prudent stance, avoiding the risk of being involved in futile exercises. In the meantime, Tacis could consider the opportunity of redressing the focus of its current activities in support to Moldovan universities, where the continuing emphasis on economics and management is no longer justified, as it was in the early days of transition, by a pressing need to catch up.

8.5 Recommendations – Horizontal Issues

Avoiding Excessively Large Projects. On the whole, small projects implemented through the EES and other facilities were more successful than large projects. Even among mainstream projects there seems to be an inverse relationship between size and degree of success. A significant size is sometimes necessary to achieve impact, but large projects often suffer from the problem of multiple objectives, multiple counterparts, and somewhat loosely related components. The tendency towards an ever increasing size of mainstream projects (largely due to internal considerations: “managing a large project takes about the same time as managing a small one”) should be resisted, to avoid excessively complex configurations.

The Risks of Financial Self-Sustainability. Lately, financial self sustainability of Tacis-financed institutions has become a major concern for Tacis planners. The problem is that more often than not financial self sustainability is sought after *per se*, without much consideration of the nature of activities performed by the institutions supposed to become self sustainable. While it is certainly reasonable to expect that an organization like ARIA becomes fully self-sustainable once Tacis support is over, the same cannot be said of initiatives with a high promotional or informational content (such as parts of the Agroinform and Agricultural Marketing projects). Tacis may well decide not to enter in (or to discontinue) the provision of basic public goods (in the economic sense), such as information on prices or agricultural techniques, but it would be illusory to expect these initiatives to become financially viable.

Streamlined Management of Cross Border Initiatives. There is general consensus among Moldovan authorities and in the donor community that increased regional cooperation and policy dialogue is of paramount importance for the country. In this context, the Cross Border Cooperation program could *a priori* certainly play a significant role. Although Moldova has indeed benefited from some CBC projects, some organizational aspects appear to hinder the smooth functioning of the facility. Main problems include:

- in the case of projects involving small infrastructure (e.g. the border posts at Ungheni and Leuseni), the tendering procedures appear to be overly complex for local contractors;
- Phare counterparts (in the case of Moldova, Romanian entities) have little financial incentive in extending an effective cooperation (at the time of fieldwork the Prut River Management project was having hard times in getting essential data from the other bank of the river);
- the need to find an EU partner for the small projects facility appears often as an insuperable barrier;
- the opening of a field office in Lvov does not seem to have alleviated the problems with paperwork, while interactions with Chisinau and Denmark are still required.

A streamlining of existing procedures could certainly lead to a spur of new initiatives.

ANNEXES

ANNEX A – NOTES ON EVALUATION CRITERIA

A.1 Introduction

In this Annex we briefly elaborate on the evaluation criteria used in this study. An attempt is made to adapt the general concepts to the peculiarities of the task at hand, by including some examples referred to Tacis activities in Moldova.

A.2 Relevance

Relevance refers to the coherence of project/program objectives with identified needs and priorities and to the appropriateness and realism of the project setting. Relevance can be assessed in steps, through a sort of sequential process, by looking at: the purpose of assistance, its content, the timing, and the nature of the beneficiary organization. As for the purpose of the assistance, the key point is the possible mismatch between the objectives pursued and needs. Then, the subject matter may be relevant but the activities and/or resources provided for under the project may not be appropriate. Then, the subject and the means may be relevant but the timing could be wrong. Finally, even if everything else is appropriate, the beneficiary could be the wrong one (e.g. an institution totally deprived of political clout) or change dramatically attitude during project implementation. In practice, assessing relevance amounts to a large extent to an assessment of project design. However, relevance could be enhanced or reduced during project implementation through flexibility in adjusting to unforeseen changes in the environment or in the beneficiary. As mentioned in the main text, in the case of this country strategy exercise, five sub-criteria have been retained to assess relevance, namely:

- prioritization of needs and allocation of resources,
- appropriateness of counterparts,
- coordination with other donors and international financial institutions,
- political endorsement, and
- timing and sequencing of actions.

A.3 Effectiveness

Effectiveness measures the extent to which project/program objectives have been achieved. Depending on the nature of the project (and on the quality of project design) objectives may be more or less broadly defined. In addition, in certain situations there may be some implicit or even hidden objectives (not to be mistaken with "side effects" - see the comments below on Impact). Sometimes (actually, more often than not) objectives are mistakenly defined in terms of outputs, which instead are the necessary elements to attain a certain objective. In the case of institution building projects, the objective is typically achieved when the beneficiary has reached the capability to perform certain actions. Instead, the simple hiring and/or training of staff and the establishment of a library or resource center is not an indicator of achievement but rather an output. In the case of projects directly extending assistance to operators (enterprises, banks, etc.) effectiveness is reached when the advice, training, etc. provided by the project is actually used by the recipient organization. In other words, the preparation of a total quality manual is a mere output, whereas only the actual implementation of the procedures described in the manual indicates real achievement. In a

similar vein, in a policy or legal advice project, effectiveness is measured by the actual adoption of certain measures, pieces of legislation, etc. not by the simple delivery of a learned opinion on, say, the best possible formulation of a certain article in the antitrust law. From what precedes it is clear that effectiveness should not be mistaken for a summary assessment of the performance of contractors, since it also depends upon the attitude of the beneficiary organization, as well as on external conditions beyond the control of both parties.

A.4 Efficiency

Efficiency measures the value for money of a project. Indeed, certain objectives may be achieved through different courses of actions and/or employing different resources involving, in turn, different costs. Although conceptually straightforward, relating costs to achievements may turn out to be exceedingly complex in practice. The problem is not so much with the numerator (costs, which however in the case of Tacis are not always easy to determine) but with the denominator, due to the heterogeneity of achievements. For instance, in the case of an enterprise restructuring project, achievements may range from the establishment of a well functioning marketing department to the introduction of improved cost accounting methods, and these events clearly cannot be "added up" to yield a synthetic indicator of achievement. This may lead to the adoption of some artificial unit of account, based on the notion of "successful intervention", which, however, poses the problem of the weight attributable to each item (is a successful twinning agreement with an EU firm worth more or less than the re-styling of some Soviet-looking products?). Efficiency considerations are of particular interest in a comparative prospective, i.e. when comparing the "bang per buck" of two similar projects or of a certain project against some accepted norm. In many cases, the achievements sought by a project may be unique and therefore no benchmark would apply (what is the right price of the adoption through different parliamentary readings of a good antitrust law?). In these cases (as well as in those where information about achievement or even outputs is not available or usable) efficiency analysis boils down to an assessment of the cost of inputs (so many Euros per staff/day). Considerations regarding costs may be usefully complemented by a qualitative analysis, even based on casual observations. For a practitioner it is not so difficult to detect the presence of slack or of overcrowding (with too many expatriates working on the same spot) or to identify procedural bottlenecks negatively affecting the way in which resources are deployed.

A.5 Sustainability

Sustainability is usually defined as the capability of a project to continue to produce effects after its completion. Different indicators of sustainability may be used, depending on the nature of the project. In case of institution strengthening initiatives, sustainability has much to do with the attainment of inner managerial capabilities, not only to efficiently manage ongoing operations but also (and more importantly) to formulate and implement development strategies, including the capability of building up a portfolio of products/services, of recruiting/retaining staff of adequate quality, etc. In the case of some organizations, this also translates into the credible prospects of attaining financial viability when foreign assistance would tape off (the so called financial self sustainability, often mentioned in the cases of ARIA and CAMIB). In the case of projects providing direct assistance to operators (enterprises, banks, etc.), the issue of sustainability has to do with the achievement of a

"critical mass" that can provide impulse for lasting changes. In other words, an increase in export sales may simply result from a one shot opportunity exploited thanks to the good connections created by an expatriate advisor (in which case sustainability is not assured) or from a change in the corporate culture, which is effectively placing emphasis on quality of products, timeliness in delivery, and the like. Sustainability can be properly assessed only after a certain period of time has elapsed but the likelihood of sustainability can often be guessed based on some crude elements (e.g. are the key people trained under the project going to stay or to go?).

A.6 Impact

Impact refers to the project contribution towards the achievement of some wider objective (direct effect) as well as to the presence of other effects on the wider project environment (indirect effects), including unintended, positive or negative, side effects. Indicators of impact vary according to the nature of the project. In the case of an enterprise or bank restructuring project, one should look at the change in performance (profits, export sales, etc.) achieved by the companies directly assisted (direct effect) and, possibly, also by those not assisted but somehow exposed to the project through, say, some emulation-competition mechanism (indirect effect). In the case of projects aimed at supporting some durable policy move (say, social security reform), the impact should be judged in terms of benefits accruing to the ultimate beneficiaries (*i.e.* are those intended to benefit from the social safety net engineered by the project really enjoying the necessary protection?). Providing an accurate, quantitative assessment of the impact is always difficult but the more so in the case of TA projects (such as those financed by Tacis). Indeed, even if some with-without (or at least before-after) comparison can be made (which is normally not the case, due to the general lack of baseline data), the performance of enterprises, banks, etc. is obviously influenced by many other forces and actions other than the TA received under the project and unambiguously linking the latter to any variation in performance is often not possible. In these conditions, evaluators of TA projects/programs are often forced to confine themselves to more or less elaborate statements on qualitative effects, such as the impact on the process of mentality change and the like.

ANNEX B - LIST OF TACIS PROJECTS

	Budget (€ million)	Status
Private Sector Development		
1992 Technical assistance for the 1993-94 privatization program	0.9	Completed
1992 SME Development Agency/Business Communication Center	0.8	Completed
1992 National Bank: clearing and settlement systems	0.7	Completed
1993-94 Assistance for the conversion of 6 defense-related companies	1.14	Completed
1993-94 External audit and diagnostic review of Agroindbank	0.14	Completed
Assistance to SMEs for International Commercial Negotiation		
1995 and Access to Local and Foreign Funding	0.5	Completed
1995 Support for enterprise isolation program	1.0	Completed
1996-97 Support to enterprise isolation program and ARLA	1.8	Completed
Support to the conversion and development of defense-related		
1996-97 firms	0.6	Ongoing
Task force for the implementation of the 1997-98 privatization		
1996-97 program	1.7	Completed
1998-99 Support to the competitiveness and productivity center	1.0	Tendering
1998-99 Export promotion support	1.8	Ongoing
SUBTOTAL	12.1	
Public Administration and Social Sectors		
1992 Moldova employment services	1.25	Completed
Management training: center for training and economic		
1992 assistance	1.0	Completed
1993-94 Strengthening of the government and public administration	1.9	Completed
1995 Reform of the social security system	1.5	Completed
1995 Support for reform of the health sector	0.5	Completed
1996-97 Staff development and improving the functioning of PA	1.8	Completed
1996-97 Assistance to the reform of the vocational education system	1.5	Completed
1996-97 Support to higher education in economics I	1.0	Completed
1998-99 Support to higher education in economics II	0.8	Tendering
1998-99 Strengthening of regional public administration	1.2	Tendering
1998-99 Implementation of the PCA	2.5	Tendering
1998-99 Support to the Ministry of Health	1.3	Tendering
SUBTOTAL	16.3	
Agriculture		
1991 Improvements to the fresh produce sector	1.0	Completed
1992 Improved pig production. processing and distribution	1.6	Completed
1992 Creation of an agricultural export promotion bureau	0.9	Completed
1993-94 Pilot project in privatization in Orhei	2.4	Completed
Promotion of development and investment opportunities in		
1993-94 agro-industry	0.6	Completed
1993-94 Creation of a national federation of farmers associations	1.4	Completed

1995	<i>Improvement of marketing of agricultural products</i>	1.5	<i>Completed</i>
1995	<i>Amplification of quality seed supply to farming</i>	0.4	<i>Completed</i>
1995	<i>Development of credit to private farmers</i>	0.8	<i>Completed</i>
1996-97	<i>Assistance to reform the agriculture support system</i>	1.5	<i>Ongoing</i>
1996-97	<i>Support to the agency for restructuring agriculture (ARA)</i>	1.0	<i>Completed</i>
1996-97	<i>Information campaign on agriculture privatization</i>	1.3	<i>Ongoing</i>
1998-99	<i>Project Mortgage Moldova</i>	0.1	<i>Ongoing</i>
1998-99	<i>Support to agricultural education, training and research</i>	2.5	<i>Tendering</i>
1998-99	<i>Support to the development of agricultural advice centers</i>	1.2	<i>Tendering</i>
1998-99	<i>Development of agricultural machinery supply and service firms</i>	1.0	<i>Not yet tendered</i>
	SUBTOTAL	19.2	
Energy			
	Assistance for the development of a market-oriented policy in		
1992	energy	2.0	Completed
1993-94	Extension of assistance for a market-oriented energy policy	0.68	Completed
1995	<i>Development of energy conservation programs</i>	1.2	<i>Completed</i>
1995	<i>Policy support to the State Department of Energy</i>	0.27	<i>Completed</i>
	SUBTOTAL	4.2	
Transport			
1993-94	Port of Giurgulesti oil terminal	0.45	Completed
	Air traffic control equipment and TA to civil aviation and Air		
1993-94	Moldova	0.3	Completed
1998-99	<i>Refurbishment of the Gura Bicului Bridge</i>	2.0	<i>Tendered</i>
1998-99	<i>Support to the restructuring of the Moldovan railways</i>	1.0	<i>Tendered</i>
	SUBTOTAL	3.8	
	GRAND TOTAL	55.6	

N.B. In italics are the projects included in the Action Programs under evaluation or otherwise covered by this exercise

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