



## **EVALUATION OF TACIS COUNTRY STRATEGY IN MOLDOVA**

### **Final Report**

### **Volume II – Detailed Project Profiles**

*Submitted by*

**NOMISMA and ECONOMISTI ASSOCIATI**  
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*in collaboration with*

**AGREX**  
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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

This report was prepared by a team comprising Roberto Zavatta (team leader), Anna Martella, Andrei Bat, Alberto Bolognini, Contantin Ojog, and Marco Spinedi. Editorial and research assistance was provided by Davide Castelli. During fieldwork the study team was accompanied by the Task Manager, Ms. Outi Karkkainen. While Ms. Karkkainen participated in meetings and other project activities, the responsibility of findings rests entirely with the study team.

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## INTRODUCTION

In this volume we present the detailed profiles of the nine projects selected for in-depth analysis. The project profiles follow a standard format, comprising:

- an introductory section, with general remarks on the project and its outcomes;
- a descriptive section, with information on project objectives, components, problems encountered during implementation, relations with other donors and/or other Tacis initiatives, etc.;
- an evaluation section, where the project is assessed against the five evaluation criteria retained in the study (relevance, effectiveness, efficiency, impact, and sustainability).

Finally, whenever available, the project profiles contain a box reproducing the ratings given by the Tacis Monitoring Unit.



## Profile #1

**Enterprise Restructuring and Support to ARIA II**

<b>Official Title:</b>	Support to the Enterprise Isolation Program and ARIA Development/ARIA II
<b>Reference Number:</b>	PROMOL 9701
<b>Contract Number:</b>	98-0094.00
<b>Location:</b>	Chisinau
<b>Main Contractor:</b>	Consorzio Progetto Lazio (Italy)
<b>Other Contractors:</b>	IDOM (Spain) and SOGES (Italy)
<b>Partner Institution:</b>	Agency for Enterprise Restructuring Assistance
<b>Start Date:</b>	May 1998
<b>Completion Date:</b>	January 2000 (after a 2-month extension)
<b>Budget:</b>	€ 2 million
<b>Manpower:</b>	not available

**1. INTRODUCTION**

A continuation of a previous Tacis initiative (“Support for Enterprise Isolation Program”), this project aimed at supporting the restructuring of a group of enterprises as well as at helping the transformation of the partner organization, the Agency for Restructuring and Industrial Assistance (ARIA), into a self-sustainable consulting entity. Included in the 1996/97 Action Program, the project was started only in May 1998 and completed in January 2000 after a couple of short time-only extensions. The friendly relationship between the beneficiary and the contractor and other unusual practices (such as the payment of local consultants by the beneficiary and the use of project funds to cover for some of the beneficiary’s running costs) attracted the attention of the monitors and the project was subject to an audit. However, no significant irregularities were found and it is now widely recognized that the audit should not have taken place in the first place. The project was able to reach most of its objectives (ARIA’s capabilities were significantly enhanced, some of the enterprises assisted did manage to reduce their debts and to establish contacts with foreign partners) and the sustainability is certainly not worse than in most other cases (there are chances that ARIA could indeed stay on its feet in the foreseeable future). However, there are doubts especially regarding the intensive use of “generic” long term experts in enterprise restructuring exercises that would have required a greater involvement of short term resources with industry specific expertise.

## 2. DESCRIPTION

### 2.1 Objectives

The wider objective of the project was to support the Government's effort in reorganizing or liquidating insolvent enterprises and thus to help the recovery of the industrial sector. In more operational terms, the project was assigned two specific objectives: (i) the restructuring of selected enterprises (also intended to provide success stories capable of generating a sort of "lighthouse effect"), and (ii) the upgrading of ARIA in order to transform it into a self-sustainable consulting company.

### 2.2 Activities

In parallel with the twofold objective, project activities were grouped into two components, whose main activities (as defined after the Inception Phase) were as follows:

1. Restructuring of enterprises, involving:

- selection of local consultants from a group of candidates presented by ARIA
- selection of 8 enterprises to be restructured in-depth analysis and restructuring plans
- debt restructuring agreements
- implementation of the restructuring plans through assistance to company managers
- organization of study tours and business trips

2. Upgrading of ARIA, through:

- preparation of a strategy and business plan
- improvement of organization and human resources management
- training of staff
- marketing activities to enhance ARIA's visibility and corporate image
- adoption of a monitoring system to follow up results of restructuring exercises
- development of new advisory services
- setting up of contact points abroad to promote the agency's services and Moldovan firms' business relations

### 2.3 Implementation

The implementation of the enterprise restructuring component was generally rather smooth. The selection of 8 companies from a list of 16 was carried out with no significant problems and in less time than initially scheduled. Enterprise selection was based on several criteria: management commitment to undertake restructuring, importance of the company for the national economy, its financial position and potential for survival and growth. The project was also engaged in the selection of 24 Moldovan consultants (out of 45-50 candidates proposed by ARIA). It must be noticed that the project was able to exploit the model of restructuring plan applied in the previous Tacis project. Implementation of the restructuring plans was managed by steering committees created by the project within each enterprise. These committees held monthly meetings and included ARIA's chairman and vice chairman, the general manager of the company involved, and the relevant expatriate and local experts. Each long term expatriate was responsible for 2-3 restructuring exercises, with support from STE (also involved in the training the local consultants).



The strengthening of ARIA component was largely re-designed during the Inception Phase. Indeed, while the contractor's technical proposal had emphasized training activities for ARIA staff, a number of other activities were included: preparation of ARIA's business plan, improvement of its organization and human resources management, marketing activities, adoption of a monitoring system on the results of assisted companies, etc. This resulted in some delays but in the end it did not seem to affect ARIA's development.

The project had a somewhat troubled life on other fronts. During the Inception Phase a decision was made to transfer the funds for local consultants from the project budget to ARIA, which became responsible for paying directly the local staff. Also, during implementation the team leader was often bypassed by the local consultants, the long term experts and the project director, who all used to deal directly with the chairman of ARIA. These elements attracted the attention of the Monitoring Team who initially displayed some dissatisfaction about the project and even prompted an audit, which, however, found no evidence of wrongdoing. The relations with the Monitoring Team improved towards the end, when the expatriate monitor was changed.

## **2.4 Relations Contractor/Partner Organization**

Relations between the contractor and the beneficiary were generally good. In the case of ARIA's top management and project director they even developed into a personal liaison, which again raised the suspicion of the monitors. A good level of cooperation was reached between local consultants and expatriate ones. Weekly meetings in Chisinau helped LTE and local consultants in coordinating and finding solutions for the enterprises in the process of restructuring. Some minor discrepancies between ARIA and the expatriate experts concerning the type of restructuring did emerge (for example, on the need for bankruptcy procedures) but this is inevitable in this sort of projects.

## **2.5 Coordination with Other Activities**

Restructuring activities carried out within the framework of the Enterprise Isolation Program were financed by various sources other than Tacis, such as the World Bank and the German bilateral assistance. Still, no real coordination between the various donors appears to have occurred. An exchange of experiences among the various project teams could have been beneficial since it would have brought significant lessons for ARIA and would have helped the project to go beyond the immediate scope of the restructuring of a small number of enterprises.

### 3. EVALUATION

#### 3.1 Relevance

The objective of restructuring Moldovan enterprises is certainly relevant considering the situation of former state owned companies. Indeed, they were (and still are) characterized by outdated and inefficient equipment, scarce or non-existent investments in new technology, lack of marketing skills, production oriented management, heavy debts and low labor productivity. The restructuring plans prepared under the project were aimed at solving the major problems in order to prepare the enterprises for the new market environment. The selection of the partner organization was also relevant since ARIA, the main actor involved in the restructuring of enterprises, already had developed management consulting capabilities and was fully aware of local conditions.

#### 3.2 Effectiveness

The enterprise restructuring component was fairly successful, at least in comparison with other TA projects of this sort. Out of the 5 enterprises visited during fieldwork, only one can be regarded as an unsuccessful case (*Talmaz*, which should have never been included in the program). In the other cases, the objectives spelled out in the restructuring plans were more or less achieved, although sometimes with delays. Indeed, implementation of these plans has brought positive changes for the companies involved. Their financial situation has generally improved thanks to the reaching of conciliation agreements with creditors. The managers have become more aware of the real economic and financial situation of their companies, have learnt new concepts of enterprise management and marketing, and (also an important aspect in Moldova) have become aware of energy saving opportunities.

The strengthening of ARIA was also largely achieved. Indeed, ARIA's mission and general orientations have been re-assessed as part of the preparation of the business plan, containing the agency's new strategy and organization. A system of job description and management by objectives has been formulated and largely implemented. Professional capabilities were enhanced through training courses on restructuring techniques, technology transfer and innovation management, turn around management techniques, quality systems and human resources development. A monitoring system on the results of the assisted companies was set up, and various strategic business units have started operating. Other results within this component include the improvement of ARIA's website and the publication of new brochures to increase the agency's visibility for potential clients in Moldova as well as in other countries.

#### 3.3 Efficiency

Cost-effectiveness does not seem to be one of the strong points of this project. During our visits to the enterprises enrolled in the program, the managers interviewed conceded that the implementation of restructuring plans was a lengthy affair, usually spanning over 12 to 18 months. Moreover, inputs were largely provided by long term experts, at the expenses of short term consultants with industry specific expertise. While complaints about the long duration of project interventions can be partly due to the former soviet managers' typical obsession for quick results, the comments regarding the excessive reliance on long term experts (with more

generic skills) is in line with what found in the case of other Tacis projects. It is not clear if the point was noted by the contractor and/or the task managers and whether measures to reach a more balanced combination of expertise were ever envisaged. Some other slippages occurred (for instance, about € 40,000 were passed to ARIA to cover for telephone bills and other contingencies, a rather significant amount) but these are to some extent unavoidable events, if a contractor is to retain good relationships with a commercially minded beneficiary.

### **3.4 Sustainability**

The implementation of the restructuring plans and the reaching of conciliation agreements with creditors have improved the economic and financial situation of companies assisted by the project, which in some cases were on the brink of bankruptcy. To fully implement the measures envisaged by the plans though, companies need to have access to financial resources, which is not always possible. In this respect, the contacts established with western counterparts and potential investors have certainly increased their chances of staying afloat in the long run. As for the second project component, ARIA has already started to reorient its strategy to become a self financed agency. It delivers consulting services in Moldova (where it reportedly holds 60-65% of the consulting market) and is trying to do the same in Ukraine. Contacts have also been established for new assignments in Romania and Uzbekistan. The selling of these services to new clients certainly represents a way to strengthen the sustainability of the agency.

### **3.5 Impact**

At the micro level, the project seems to have had some impact. Out of the 5 enterprises visited, only one was able to increase its sales and to return to profits (though this is largely due to the general difficult economic situation in Moldova). Nevertheless, in most of the assisted companies the percentage of barter sales decreased significantly, thereby improving the cash flow. Further improvements can be legitimately expected as a result of the involvement of foreign partners directly linked to project activities. On the other hand, there is no evidence that the project had a wider impact on the Government's efforts in rehabilitating, reorganizing or liquidating companies with major difficulties or on the recovery of the enterprise sector as a whole (i.e. no "lighthouse effect").

### Assessment by the Monitoring Unit

The project improved its ratings from the Tacis Monitoring Unit towards the end (when the monitor responsible for prompting the audit moved on), but overall the monitors remained skeptical. The May 1999 report even split the rating among the two project components. Especially the component concerning the upgrading of ARIA was deemed as needing corrective action due to lack of clarification about the agency's status, objectives, orientations, organization and management principles. The ratings in the monitoring reports were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor):

Monitoring Reports	01/99	05/99 Comp.I	05/99 Comp.II	12/99 End of project assessment
Implementation of activities/ Overall performance:	C	C	D	C
Achievement of outputs to date:	B	C	D	B
Appropriateness of workplan for next 6 months:	C	D	D	n.a.
Ability to achieve objectives:	C	D	D	C
Potential sustainability:	B	C	C	C

## Annex A

### Fabrica de Drozdii

<b>Address:</b>	1 Uzinelor Str., Chisinau
<b>Line of Business:</b>	Yeast
<b>Legal Status:</b>	Joint Stock Company
<b>Year of Establishment:</b>	1995
<b>Workforce:</b>	125 (present)
<b>Turnover:</b>	not available
<b>Period of Project Assistance:</b>	mid 1998 – end 1999

#### A.1 Background

*Drozdii*, the only producer of yeast for bakeries in Moldova, is located within the city limits of Chisinau. In 1995, the factory was privatized through the voucher scheme and transformed into a joint stock company with the state holding a share of about 30 % and the workers collective about 50 %. After privatization, the company found itself in a relatively good financial situation with large stocks of raw materials financed through short term bank loans and no historical debts. Nevertheless due to obsolete equipment, the production process was characterized by a low quality of finished goods, big losses, inefficient usage of raw materials and high costs. The company's workers were experienced but labor productivity was low because of their high number. Another major problem concerned the marketing and sales strategy which reflected the fact that *Drozdii* was not client oriented. Indeed, the company usually awaited clients to contact it and this led to the loss of the main customers. The skills of employees in the marketing department thus needed to be improved.

#### A.2 Project Activities

In 1998, a contract was signed with ARIA under which the firm benefited from consultants' assistance for 18 months. Most of the assistance was provided by long term experts in restructuring some of whom were specialists in financing and marketing. These consultants started with an overall diagnosis of the firm and then passed to the preparation of a 5-year restructuring plan which was agreed upon by shareholders on October 2<sup>nd</sup> 1998. Support was also given by a short term expert from the yeast industry. The company's limited indebtedness did not require submission of its file to the State Creditor Council. The main objectives of the restructuring effort were to find the credits necessary for upgrading its obsolete equipment and to involve foreign industrial partners.

During project implementation *Drozdii* was able to tackle new issues such as energy saving and to get in touch with two specialists in yeast production with whom it is still in contact. Thanks to Tacis support, the management of the factory was able to travel to Berlin for the world conference of yeast producers and to visit plants in Poland, Holland and Germany. As a result of this business and study tour, the company introduced a new methodology and bought new qualities of yeast and new equipment worth US\$ 150,000 from Holland. Furthermore, contact with a Dutch yeast producer firm led to the establishment of a

relationship of collaboration. Subsequently, *Drozdii* signed a contract for technical assistance in quality control with this Dutch enterprise that has shown interest in creating a joint venture.

### A.3 Present Situation

In 1999, the management was able to buy the state share of *Drozdii* and is thus now controlling 70 %, while the workers and the investment funds have 30%. The Moldovan market for yeast has witnessed the entrance of new competitors mainly from Ukraine and Turkey. This is especially evident in northern Moldova where 40% of the market has been taken over by Ukrainian companies while *Drozdii* still controls 60%. The possibility of exporting is presently being taken into serious consideration by the management. A potential market is represented by Romania where local production of yeast is very limited and demand highly exceeds supply (already 3-5 tons of yeast are exported by *Drozdii* to Romania). Another export outlet could be Turkey where *Drozdii* would be competitive on prices. These export opportunities though, will only be exploited once problems within production are solved in order to increase the plant's capacity.

In spite of project support, sales have declined due to the general economic situation of the country, which has been accompanied by a decline in the purchasing power of the population. A rise in energy costs also increased difficulties and consequently product prices had to be reviewed and raised by 25%. As a consequence of restructuring the workforce has been reduced to the present 125 employees (150 employees before privatization). The management was able to familiarize with marketing issues thanks to the Tacis project and as a result marketing and sales departments were created. Therefore, the relationship with buyers has changed and meetings are now being organized by the factory reversing the previous tendency of waiting for clients to show up. An indirect effect of Tacis intervention but nevertheless important, is the fact that even if the price of energy has gone up, the company has been able to counter the increase in costs thanks to the improved efficiency of the new equipment bought. The management has also demonstrated a strong determination since dividends have not been paid in the last three years and have been used to invest in the restructuring of the plant.

### A.4 Assessment

Tacis consultants engaged for 18 months in the preparation and implementation of the restructuring plans for the selected companies were mostly general experts on enterprise restructuring, with only few specialists coming from the yeast industry. Doubts can be raised on the actual necessity of having such "general" consultants for such a long period of time, and the management even admitted that the same results could have been reached in 7-8 months. Therefore, what emerges is the need for more assistance provided by sectoral specialists on a short term basis. Preferably, these experts should come from similar firms in EU countries in order to provide precious advice on the production process and foster contacts for collaboration at firm level. Another major field in which the management would have liked more support is that of marketing. The company had even selected 10 persons to attend a Tacis sponsored study tour focused on marketing but eventually this did not take place. While the restructuring plan implemented with the assistance of Tacis consultants was certainly needed by the company, the business and study tour to the Berlin conference and to European yeast producing plants has emerged as being extremely useful in finding foreign

partners. Furthermore, the contacts with the Dutch company had the major consequence of opening the mentality of the management. This emerges from an initiative which has seen *Drozdiu* apply to obtain a 1.5 million Guilder funding through a Dutch program on energy saving and its plans to apply for ISO 9000 quality standards.

In conclusion, more resources could have been spent on study tours & business trips and on consultancy from sectoral experts. The need for more business trips has indeed emerged strongly (“better to see once than to hear 100 times the same thing”) but also the possibility of having these hosted in Central European countries has been considered positively. The main advantage of such an initiative would derive from the fact that firms in these former socialist countries have had to face similar problems caused by the transition to a market economy and would thus have more useful lessons for their Moldovan counterparts compared to firms in EU countries.

## Annex B

### Lapte

<b>Address:</b>	90 Sarmizegetusa Str., Chisinau
<b>Line of Business:</b>	Dairy products
<b>Legal Status:</b>	Joint Stock Company
<b>Year of Establishment:</b>	1995
<b>Workforce:</b>	400 (present)
<b>Turnover:</b>	not available
<b>Period of Project Assistance:</b>	September 1998 – mid 1999

#### B.1 Background

Located in Chisinau, *Lapte* is a dairy products' manufacturer whose brand used to be fairly well known throughout the Soviet Union. Its main products include packaged milk, yogurt, curd, butter and skimmed powder milk. Raw milk supplies come from former collective farms. Before privatization, the factory's workforce totaled 720 employees. In 1995 complete privatization through the voucher system transformed *Lapte* into a joint stock company. As a result, suppliers (about 2,500 persons) from the *kolkhozes* received 44 % of shares, the staff 20% and the investment funds 30%. Subsequently the company's vouchers were traded on the black market and the shares underwent a process of concentration in fewer hands.

The strong points of *Lapte* included the quality of its products (virtually organic and with no artificial ingredients), the strategic location of the plant, a highly skilled personnel and a relatively low level of accounts payable. The processing equipment had a satisfactory and competitive technological level but capacity utilization and attention for quality control was very low. The management was willing to undergo restructuring of the firm, but needed training in modern management skills. Moreover, *Lapte* was rapidly losing its market share due to the presence of more aggressive competitors and the lack of a clear marketing strategy. Half of its sales were going to budget-financed organizations and were not paid in due time (the largest of such organizations, *Automat SA*, had outstanding debts exceeding 8 months). The company had also lost a considerable part of its milk suppliers since it was not able to pay them in time. Because of the different percentage of VAT on raw materials and on finished products, the amount to be received from the Treasury increased from 0.5 to 1 million lei (respectively US\$ 105,000 and US\$ 210,000) during the first half of 1998. The company was thus financing its activities mostly with expensive bank loans of about 2.4 million lei (US\$ 506,000) and delayed payments to suppliers of raw milk and utilities, a debt that had increased from 0.9 up to 2 million lei (respectively US\$ 190,000 and US\$ 420,000).

#### B.2 Project Activities

The restructuring plan prepared by Tacis consultants for *Lapte* was approved by its shareholders on September 15<sup>th</sup> 1998. Assistance to the firm was provided both by long term consultants and a short term expert. The plan's main objectives were to improve the financial



situation, to solve strategic issues and to find a foreign investor. Tacis consultants did not consider the company's financial situation to require conciliation.

The management took part in business tours to France and Italy to visit factories and learn about the production cycle and products. During project activities, *Lapte* was introduced to a French investor who started showing interest in the purchase of shares. A protocol was even signed between a French firm, the general management of *Lapte* and a local commercial bank, but was subsequently cancelled. Eventually in July 1999, the French investor bought 40 % of shares from the investment funds.

### B.3 Present Situation

The official total number of workers employed by *Lapte* is currently 400, of which only 220 are working full-time. The domestic market absorbs almost all of the company's products while only 10-15 % of production (mostly dried milk) is exported to Romania, Germany, Holland and Japan. The suppliers of raw milk are concentrated in the area around Chisinau and central Moldova. *Lapte* has indeed started to diversify its production with new products such as yogurt and cheese and has introduced Tetrapak packaging that makes the product last for 5 days (replacing glass bottles to be sold in 33 hours). But recently, new competitors with foreign shareholders using modern packaging techniques and selling at lower prices, have emerged in the dairy market posing a serious threat to *Lapte*.

After Tacis intervention, debts have decreased but the company is still posting losses. Since it has been impossible for the French investor to manage *Lapte* without the control of at least 66% of shares, it has elaborated plans to obtain a further 40 % of shares through a local bank which will buy this stake on its behalf (80 % will then be in its hands, while 10 % will remain to the employees and the last 10% to the former collective farms). The objective of the foreign investor is to reorganize the distribution system of the dairy sector and transform *Lapte* into a holding which will put together the supply, production and distribution of milk. The ongoing negotiations with the foreign partner are now dealing with the legal status of the partnership.

### B.4 Assessment

When assistance from ARIA came to an end, *Lapte* asked for short term consultancy on a specific issue such as energy saving from which another company was known to be benefiting, but this was not provided. Additional support in marketing would have been appreciated too. When asked if the long term consultants were effectively needed for 18 months, the management answered that 12 months would have been enough. Admittedly though, two months, in which there was a reciprocal learning process, were lost before starting the implementation of the plan.

## Annex C

### Moldovahidromas

<b>Address:</b>	7 Mester Manole Str., Chisinau
<b>Line of Business:</b>	Electric pumps
<b>Legal Status:</b>	Joint Stock Company
<b>Year of Establishment:</b>	1995
<b>Workforce:</b>	560-600 (present), 1,370 (1998)
<b>Turnover:</b>	US\$ 2.58 million (1999)
<b>Period of Project Assistance:</b>	September 1998 – September 1999

#### C.1 Background

*Moldovahidromas* was one of the largest producers of electric pumps in the USSR. The factory was built in the 1960s and planned to serve all COMECON countries. The pumps, characterized by a sophisticated technology, were sent to Moscow and from there exported to a world-wide market including COMECON countries, Iran, Iraq, Libya and China. Designed for neutral, chemically active, toxic, flammable and highly explosive liquids and gases, *Moldovahidromas* pumps were used by the chemical, food, microbiological, processing, metallurgic, power engineering, gas and oil extraction industries. The company was privatized in 1995, with the state retaining 23% of shares of the new joint stock company and the remaining 77% being distributed to various shareholders, of which 17% was controlled by six managers.

As in any other “mash” company, the enterprise certainly had some valuable technical skills, allowing it to obtain high quality pumps, but capacity utilization was only 8-10% and equipment was mostly outdated. Managers were markedly production oriented and with scarce working experience in the new market environment. Due to the rigid organizational structure, responsibilities were not sufficiently delegated. The continuing of production without orders had caused a strong increase of inventories and a reduction of debtors. Gradually, the decrease of the turnover contributed to an unstable financial position, characterized by huge debts to the budget, the social fund, employees and commercial creditors. By 1998 the company was suffering heavy losses (US\$ 6.8 million) and the workforce was down to 1,370, a sharp reduction considering that 3,700 employees were working for *Moldovahidromas* in the first half of the 1990s.

#### C.2 Project Activities

The difficult situation in which the company found itself by 1998, with the Government wanting to close down the plant, induced the management to ask for ARIA assistance. Despite fears that ARIA could not help *Moldovahidromas* due to the large size, a 12-month contract for technical assistance within the Tacis project was signed in September 1998. On October 10<sup>th</sup>, a restructuring plan was presented and approved based on five major objectives: reduction of expenditures, increase of sales, exclusion of unprofitable activities, upgrading of technology and privatization of land on which the factory is located. All

objectives were achieved within a year and a half, apart from the last one concerning the purchase of the land. Another issue which required Tacis intervention was the improvement of the company's financial situation by reaching conciliation agreements with their creditors. Negotiations between the management and the creditors' council board were indeed supported by ARIA and the Tacis team of expatriate consultants. The Tacis project also organized a study tour to Italy where three deputy directors visited similar factories and came back with concrete proposals.

The implementation of the restructuring plan was hindered by (initial) strong opposition coming from the management. In order to force the management to spin off non-core businesses, even forced liquidation through the Ministry of Finance had to be threatened. Eventually, three spin-off companies were developed: an experimental plant, an engineering institute and a trade house. About 1,000 persons were employed in these companies most of them coming from the original 3,700 *Moldovahidromas* workers. An information system to keep track of expenses and to help in the purchase of raw materials in due time was also introduced.

### C.3 Present Situation

Most of the current market for the company's products is represented by Russia and Ukraine. Nevertheless, the management is trying to find new markets and has had contacts with potential clients in countries such as Kuwait and Lebanon. Recently, an order from China has been received. Unfortunately, even if *Moldovahidromas* was used to export in many parts of the world during Soviet times, its brand was not known since its products were sold with different names directly from Moscow. Furthermore it has to face competition from a German manufacturer which has lower prices (around 40% less) and a better design of products. Only quality is at the same level but much has to be done in order to be able to compete with them. Currently, the main issues that need to be tackled are the upgrading of technology, the attraction of foreign investment and the improvement of management. Furthermore, the plant has a lot of space which could be utilized for diversifying into new activities.

In the end, the main result of Tacis assistance was the change in mentality of the management, which "passed from producing for the warehouse to producing in order to sell". While in 1998 *Moldovahidromas* did not make any profit and most of what was produced (95%) was bartered, in 1999 there was a profit of 2.87 million lei (US\$ 247,00) and barter decreased to 58%. Workforce has been cut down to 560-600 employees. Furthermore, the firm has been included in the list of companies that will benefit from policy advice provided by the Tacis sponsored Moldovan Export Promotion Organization.

### C.4 Assessment

The project was not able to foster any relation between the company and a foreign partner, but this is hardly surprising, given the nature of the company (a huge plant, with old equipment & technology, plenty of barter sales to clients mostly in Russia). The management was happy both with the assistance provided by consultants and the experience of the business trip, but emphasized the fact that financing is essential in order to carry out what has been learned. Another issue to which more attention should have been devoted is that of marketing.

Again as in the other enterprises involved in the Tacis project, the time spent by long term consultants in implementing the restructuring plan can be considered excessive.

*Moldovahidromas* management was indeed more severe than others, acknowledging that 3-4 months would have been enough. More resources could therefore have been spent on business tours and on the training of local technical specialists.

## Annex D

### Pielart

<b>Address:</b>	10 Calea Ieshilor Str., Chisinau
<b>Line of Business:</b>	Linoleum, artificial leather, PVC footwear, etc.
<b>Legal Status:</b>	Joint Stock Company
<b>Year of Establishment:</b>	1995
<b>Workforce:</b>	750 (present), 1,545 (1995)
<b>Turnover:</b>	not available
<b>Period of Project Assistance:</b>	late 1998 – mid 1999

#### D.1 Background

*Pielart* is the largest producer of linoleum, artificial leather, PVC footwear and the only producer of rubber goods in Moldova. Privatized through the voucher scheme in 1995, it has gradually come under the control of an investment fund. After privatization, the workforce decreased from 1,545 to 863 employees by June 1998. The management was production oriented and lacked an adequate marketing and sales and R&D departments. The equipment was old and if not obsolete, with a low capacity utilization and high energy consumption. Moreover, the number of auxiliary business units was excessive and personnel though technically skilled, needed substantial re-training. The financial situation saw the company almost bankrupt having accumulated heavy debts which by July 1998 represented 15.9 million lei (US\$ 3.35 million). Soon after, thanks to the assistance of ARIA, a memorandum-agreement concerning 11.77 million lei (US\$ 2.5 million) was signed with the creditors council board.

#### D.2 Project Activities

After having signed a contract with ARIA, *Pielart* started receiving assistance under the project. Implementation of the restructuring plan followed its presentation to shareholders on October 7<sup>th</sup> 1998. The priorities identified were in financing, management, marketing and human resources. Assistance was provided both by long term and short term consultants. The latter were engaged in redesigning the company's organization chart and preparing job descriptions for key positions. A business trip and study tour to Italy to visit an important exhibition in Bologna and companies manufacturing similar products was organized.

With the help of the Tacis project, the company's debts received approval for a rescheduling through to year 2001 and gradually the financial situation improved. Thanks to the business trip, contacts with Italian companies were established, leading to the purchase of software for the moulds and to the signing of a 5-year contract with an Italian firm for the production of shoe soles. Another outcome of the project has been the spinning off of some industrial sections which has led to the creation of a daughter company.

### D.3 Present Situation

*Pielart* currently has to face competition from German, Italian, Russian, French, Belgian, Turkish, Czech and Polish manufacturers which offer high quality products and utilize aggressive promotion strategies backed by their ample financial resources. Following Tacis assistance, some new contracts have been signed but overall sales are in decline. Still, the company is now able to fulfill 80% of current financial obligations and is in the process of handing over 80% of its social assets to the municipality of Chisinau. It is also easier for *Pielart* to obtain external financing since access to bank lending has become possible. As a consequence of restructuring, the total workforce has been reduced from 800 employees to 750.

The contract signed with the Italian company resembles more a leasing agreement than a joint venture since the ownership of the machinery remains in the hands of the foreign partner which is responsible for its maintenance and the training of its operators. According to the agreement 300,000 shoe soles are to be produced and exported to Russia. After a first batch of 8 presses, 4 more are due to be imported this year (for a total investment of US\$ 750,000). The whole equipment was insured through a local Moldovan insurance company which is owned by a German one.

### D.4 Assessment

Overall, the management (now led by a former ARIA consultant) is happy with the assistance received, although with some reservations. Some long term Tacis consultants have been judged of low quality, while the STE were qualified. The need for a greater contribution by very specialized short term consultants has been stressed even by *Pielart* (“better to have shorter missions but more focused”), while long term consultants are considered useful only in the inception phase and should therefore be involved only for 1.5-2 months. A duplication of activities may even arise since long term expatriate consultants end up being controllers of the local consultants. Moreover, “professional” long term experts are no longer in contact with business circles, which makes it more difficult to establish new relations with foreign partners.

Both study tours and technical assistance have been considered essential for helping in the restructuring of the firm by the management, but the need for a better selection of participants to the study tours has been highlighted. In a case such as that of *Pielart*, the selection was done inside the company and mostly old members of staff were chosen instead of young ones which being more flexible would have learnt more. Another suggestion that emerged was for Tacis to consider the possibility of co-financing the participation to study tours and exhibitions.

## Annex E

### Talmaz

<b>Location:</b>	District of Tighina
<b>Line of Business:</b>	Agricultural and food products
<b>Legal Status:</b>	Joint Stock Company
<b>Year of Establishment:</b>	Late 1996
<b>Workforce:</b>	1,162 (fall 1998)
<b>Turnover:</b>	not available
<b>Period of Project Assistance:</b>	1998

### E.1 Background

The village of Talmaz is located on the right bank of the Nistru River approximately 100 kilometers south east of Chisinau. Prior to the administrative reform (1999), it was part of the Stefan Voda *raion*, now *judet* of Tighina. Taking into account that its population amounts to some 9,000 inhabitants, it can be considered one of the largest in this area. In Soviet times the village economy was based on the *kolkhoz* *Michiurin* with 1,000 members. This was engaged in the cultivation of about 6,000 hectares of land, including 604 hectares of vineyards and 240 hectares of vegetables. In addition to agricultural activities, the *kolkhoz* had a well-developed processing industry including a winery, a cannery, a vegetable processing line, a flour and oil mill.

During the 1996-1997 winter, the *kolkhoz* was transformed into the joint stock company (JSC) *Talmaz*. At that time, a first wave of 184 members left and took hold of land plots for a total 231 hectares. Among this group, about 130 joined an agricultural cooperative, while the rest formed small groups of 10-20 persons to grow land. The latter eventually broke into smaller units engaged in subsistence agriculture. Between 1997 and 1998, another 60 individuals left the new joint stock company and started farming individually. In 1999, a larger group of about 130 persons left *Talmaz* part of which founded 5 farmers' associations. What needs to be highlighted is the fact that none of the groups that left the JSC in the 1996-1999 period received asset shares but only land ones. *Talmaz* JSC thus maintained the former *kolkhoz*'s assets and was involved in agricultural production and agro-processing activities. Its main products were cereals, sunflower, vegetables, fruit, milk, meat, oil, wine and flour.

### E.2 Project Activities

The management of *Talmaz* approached the Tacis project in early 1998, in a last attempt to redress a desperate financial situation. Indeed, sales had dropped from 9.8 million lei (US\$ 2.1 million) in 1996 to 7.5 million lei (US\$ 1.6 million) in 1997 and were expected to reach only 5.5 million lei in 1998 (US\$ 1.2 million). Furthermore by 1998, the company's total debts amounted to 5 million lei (US\$ 600,000). A contract was thus signed in early 1998 for a period of 1.5 years to receive ARIA assistance at a cost of 50,000 lei (about US\$10,000 at that time). A restructuring plan was then prepared and approved by *Talmaz*'s shareholders in September 1998.

The ARIA team proposed solutions for the company's internal reorganization and to improve its financial situation. Consultants worked 3-4 days per week in *Talmaz* (most of time in the company's accounting department). All necessary information was collected and business plans on each of the production sectors and the company itself were prepared. Computerization of the accounting department was implemented. Furthermore, executive and administrative staff received training in management, business planning, and accounting system. Tacis project was not involved at all in land and asset privatization in the village of Talmaz since the main purpose of its intervention was to salvage the company's financial situation

### **E.3 Present Situation**

When Tacis TA ended in August 1999, company debts had increased to 10 million lei (US\$ 900,000). Reportedly, in this period discussions were held at the Department for Privatization on the company's future. The management was thus faced with the decision to either continue collaboration with ARIA and loose the opportunity to settle all its debts (in other words to loose the whole farm property) or join the USAID Land Project and solve the debts' issue. In the second case company assets would have been transferred partly to the local administration to redeem public debts and partly to company successors (created by Land Project) assuming the responsibility of paying non-public debts. Eventually, the management chose the Land Project option.

The Land Project started land privatization activities in Talmaz in Autumn 1999. A total of 3,293 land quotas were distributed to 3,600 persons, including those who had left the farm earlier (their land property was at last legalized). Apart from small individual family units, the village farming structure has been transformed with the emergence of USAID-sponsored "leaders"(12), who have rented various areas of land, including 3 large ones: a) a farm with 1,600 hectares, led by former company manager which had inherited company debts and thus received the flourmill, the oil mill, and the cannery, b) a farm with 2,624 hectares which has a contract with an American company and c) a farm with 298 hectares. The rest is made up of leaders who have rented between 6 and 30 hectares. The majority of these are registered as peasant farms.

### **E.4 Assessment**

The management of *Talmaz* requested ARIA assistance simply as a tactical move. In line with this opportunistic attitude, the measures contained in the business plans prepared by ARIA consultants were never enacted. In spite of the legal status of JSC, *Talmaz* was not a real private company and did very little to change such a situation. After Tacis involvement, company debts doubled and the most profitable sectors were ruined. The management was thus forced to join the Land Project, in order to settle the debts, to ease the increasing dissatisfaction of company shareholders as well as the pressure of those who had left the farm and had not received property quota.



## Profile #2

**Support to Privatization II**

<b>Official Title:</b>	Privatization Task Force for the Implementation of the 1997-1998 Privatization Program
<b>Reference Number:</b>	PRMOL 9702
<b>Contract Number:</b>	98-0237.00
<b>Location:</b>	Chisinau
<b>Contractor:</b>	Raiffeisen Investment AG (Germany)
<b>Partner Institution:</b>	Privatization Department, Ministry of Economy and Reforms
<b>Project Start Date:</b>	September 1998
<b>Completion Date:</b>	June 2000 (after 4 month extension)
<b>Budget:</b>	€ 1.5 million + € 200,000
<b>Manpower:</b>	not available

## 1. INTRODUCTION

The project was to provide support to the Privatization Department (PD) of the Ministry of Economy and Reforms in the implementation of the 1997-1998 Privatization Program and its extension for 1999-2000. This initiative was paralleled by a similar USAID project with broadly the same objectives and rivalry between the two teams emerged. Project activities included institutional and legal support to the PD and specific assistance for the privatization of selected enterprises. Support was also to be provided to *Conversia* (a holding company managing the state shares of eight former military enterprises) with the objective of setting up joint ventures with foreign investors. Yet, this project component was soon abandoned during implementation. The TOR originally envisaged the Ministry of Privatization as the project's partner organization, but the Ministry was suppressed and substituted by the PD, placed under the Ministry of Economy and Reforms maintaining its previous competencies but with a completely new staff. The project started being implemented in September 1998 and was planned to end in February 2000, but a 4 month extension was granted till June 2000.

## 2. DESCRIPTION

### 2.1 Objectives

The project's overall objective was to exploit the window of opportunity opened by the newly appointed reformist Government and let the privatization process gather momentum with the provision of external technical support. Specific objectives included:

- to enhance the PD capabilities in implementing privatization programs,
- to privatize a group of selected enterprises through adequate procedures, including international tenders and the establishment of joint-ventures.

## 2.2 Activities

Project activities were grouped into three components, namely:

1. Support to the PD, involving:
  - institutional and legal support;
  - coordination with other projects engaged in privatization;
  - assistance in the privatization of pools of enterprises through local consulting companies;
  - public relation activities.
2. Enterprise privatization, comprising:
  - selection of enterprises
  - due diligence of the selected enterprises
  - preparation for tenders
  - support to complete transactions
3. Support to *Conversia*, based on:
  - establishment of a working relationship with *Conversia*
  - collection and selection of joint venture project applications
  - support in negotiation and closing
  - training seminars on corporate restructuring and marketing.

## 2.3 Implementation

**Inception Phase.** The Inception Phase was hampered by the fact that most of the PD's management and staff had not been appointed yet. When the project started in September 1998, only the general director was in place, while the deputy directors and heads of departments were appointed 3 weeks later and the remaining staff after 5 more weeks. Initially the project was engaged in developing contacts with the Moldovan authorities and the donor community and in establishing a close working relationship with the PD. Key areas of intervention were thus identified and a short-term action plan for the PD was prepared. An appraisal of the capital market was also carried out and submitted as a report to the PD. After the February 1999 elections, project activities were further delayed by the appointment of the PD director as state minister in the new Government.

**Support to the PD.** Institutional and legal assistance was provided on a continuous basis to the PD through the use of local experts working full-time on the project. This allowed the project to respond flexibly and quickly to any request from PD management and staff. With the aim of speeding up the privatization process of small enterprises (mainly in the poultry, transport and cereals sectors) that were not eligible for international tenders, two local consulting companies were hired to serve as "privatization agents" responsible for reviewing, preparing documents and eventually privatizing enterprises grouped into homogeneous pools of ten each. Since no budget item had been planned for such an initiative, € 10,000 were reallocated from the PR budget line. These two "privatization agents" were selected through a tendering procedure. One of the winners had been recently created, while the other had gained considerable experience having been involved in the first privatization phase based on vouchers. These "privatization agents" accomplished all the related preparatory activities: the information memoranda, the valuation reports, the advice on negotiation and closing, but actual privatization of these enterprises was hampered by

unfavorable political developments (privatizations were scheduled to take part in October 1999-February 2000, precisely when there was a change in Government).

**Privatization.** Also due to the delay in the start of activities, the number of enterprises available for privatization through international tenders was much less than planned. There should have been 50 companies (included in Annex 1 of the Law on Privatization for 1997-1998) but the project team was able to identify only a list of 37 concrete possibilities. All these companies were visited during the Inception Phase. Facilities were inspected, documents examined and information collected through a questionnaire. From this list, 8 companies were eventually selected for privatization. The agreed criteria for selection were the following: size, economic condition, prospects (operating situation, markets, raw materials availability), availability of a majority stake for sale, no bankruptcy order filed, no serious legal problems, and potential attractiveness for foreign investors. Subsequently, another 44 enterprises from the list of companies submitted to parliament for the 1999-2000 Privatization Program were assessed. Out of these, another 12 were deemed eligible for an international investment tender and ten were eventually selected.

Since most of the selected companies belonged to the wine and tobacco sectors, both considered of national interest, the sale of stakes owned by the state required the specific approval from the Parliament. The new law on privatization adopted in April 1999 confirmed that enterprises belonging to these “strategic” sectors had to be privatized on a case by case basis and with an individual law (companies belonging to other sectors instead could be privatized in a “normal” way allowing much more flexibility on price and procedures). For each of the “strategic” companies included in the project portfolio, the project team had to prepare separate draft laws which were passed to the Government and then to the Parliament (where they were blocked). Another problem faced within this project component was that most of the selected companies had not yet been transformed into joint stock companies. Indeed, this incorporation process proved rather lengthy also because of the poor functioning of the State Commission on Securities and Stock Exchange.

The project concentrated its activities on two companies: *Moldcarton* (cardboard) and *Zorile* (footwear). Difficulties in getting information from the companies under review were encountered by the transaction team and the financial analysts. Moreover, in the case of *Moldcarton*, books and accounting files were taken away by tax officers for several weeks. The project asked the PD to intervene and use its influence, but it took some time to solve the matter. The organization of a tender to sell *Moldcarton* (which was supposed to be the first success case) caused some frictions between the EU advisor and the partner organization. Indeed, the PD had asked to implement a two-stage tender for *Moldcarton*, a company which had already been offered at tender several times but with no success. When the first tender was carried out the prices offered for the shares were deemed too low. The EU advisor then suggested the PD to take into consideration the existing offers as a starting point for the second stage and to start direct negotiations with potential investors in order to avoid a new tender. Eventually, the Tender Commission refused to privatize *Moldcarton* and cancelled both the tender and direct negotiations. After some efforts only *Zorile* was actually sold to an external investor.

This project component suffered other major drawbacks when six companies included in its portfolio were assigned by the PD to the USAID privatization program and when the project was asked to suspend all its activities in the cereals and wine sectors (with the exception of a few wineries and a distillery). This, compounded with the fact that throughout

project implementation some 60% of the companies included in the project portfolio required a specific authorization from Parliament before being privatized, which never came definitely killed the privatization drive.

**Support to *Conversia*.** Initially, the counterpart for this component was the Republican Conversion Coordination Center (RCCC) engaged in providing advisory services for the privatization of 8 enterprises of the former defense sector. The RCCC was replaced by the JSC *Conversia* in May 1998. *Conversia* may be regarded as an attempt to re-build a coordinating entity similar to an *obednenje* or a former line ministry. However, its powers were limited by conflicting regulations. It appeared that *Conversia* was not a proper holding company because of the dubious control over the affiliates and no liability for their assets. Furthermore, a conflict of interest was present since the director of *Conversia* was also the director of one of the affiliates. The project team tried to establish a working relationship with *Conversia*'s management and a cooperation agreement was decided upon. Yet, this was subsequently annulled. Therefore, instead of elaborating a strategic restructuring plan for *Conversia* as a whole, the project chose to concentrate on concrete joint-venture proposals. As a result, the emphasis shifted from the management of *Conversia* to the management of a number of the affiliated companies.

The setting up of joint ventures was seen as a way to carry out a quasi privatization of assets belonging to the former defense sector enterprises. The envisaged scheme was based on the supply of assets by the Moldovan part as a contribution to shares in a new company, where the foreign investor would have had clear majority while supplying additional finance, know-how and international market outlets. Application forms for the joint venture projects were handed out to the companies and a selection committee was created. The latter included representatives of the PD, the Ministry of Industry, *Conversia* and the PTF. Joint venture projects were then selected and prioritized so as to start work on what appeared to be the most viable ones. The project thus scaled down the assistance to two joint venture proposals. Various difficulties encountered and the absence of the long term expert directly responsible for this project component caused delays. Eventually, this component was cancelled altogether and the remaining resources were reallocated to the privatization component.

## 2.4 Relations Contractor/Partner Organization

Relations with the partner organization have been reasonably good. Coordination with the PD has been achieved through the weekly meetings of the deputy team leader and project team with the director of the PD and all top and middle managers. Indeed, attendance of meetings ensured a good information flow between the project team and the PD and gave an opportunity to exchange opinions and discuss plans ahead of time. Informal work meetings took place as needed on request from project experts or PD staff. It was only when the PD took the decision of transferring six companies to the USAID project that relations with the contractor became a tense.

Commitment from the partner organization reflected the general political environment. For instance, some problems emerged after the formation of the new Government when the PD management and key staff started to be less available for meetings and it became difficult to have quick reactions on draft papers such as laws, regulations and contracts. The PD legal experts became completely absorbed by new priorities and this led to several delays and postponements of project activities. As a result, the exchange between local and international

experts in the delivering of final legal documents and of legal due diligence in companies was hampered. The project team leader thus had to recruit additional national legal experts to solve this issue.

## 2.5 Coordination with Other Activities

During the first phase of project implementation, meetings and consultations with USAID, the World Bank, the IMF, GTZ and ARIA were organized, with the aim of presenting project objectives. Initially, a close working relationship was established with IBTC, the contractor carrying out a USAID project in enterprise privatization which was to end in November 1998. When in February 1999, the USAID contractor obtained a new assignment in the same field, further efforts to avoid any overlapping were deployed and several meetings were held with USAID representatives in order to exchange views and confirm respective assignments of the projects. In spite of these arrangements, during Summer 1999 USAID started exerting pressures on the PD so that its technical assistance funds be allocated to support the privatization of the wine and cereals sectors. As already mentioned, the PD withdrew 6 enterprises from the Tacis project's portfolio and assigned them to USAID.

This decision was a consequence of the conditions set by the WB for the second disbursement of the Structural Adjustment Loan (SAL II). Among these was the acceleration of privatization for the cereal and wine sectors. In this context, USAID proposed to the PD that its TA funds be allocated to support privatization of these sectors. USAID decision was made without consulting neither the project team or the Tacis Coordinating Unit. Enterprises part of the Tacis project portfolio and representing the best and the easiest to privatize were thus assigned to USAID. A waste of precious resources considering that the project was already preparing privatization with the tacit agreement of recipients. The matter was subsequently discussed with the EU Commission at DG RELEX level and an official letter was even addressed to the Moldovan deputy prime minister until a compromise solution was reached.

## 3. EVALUATION

### 3.1 Relevance

When it was conceived, the project was certainly relevant and timely (although the issue of defining a clear division of labor with the USAID had not been tackled properly). It was only during project implementation that the lack of a serious political backing appeared and that Parliament severely hampered the main privatizations. Under this respect, it is mainly the decision of granting a project extension in the new and totally unfavorable political conditions that appears debatable. The idea of including the *Conversia* component, with a completely different counterpart operating in a totally different environment, was totally inappropriate and could not but result in an outright failure.

### 3.2 Effectiveness

The assessment of project effectiveness must be split into three parts. Institutional support to the PD proved fairly effective, although this was a poor substitute for a real political commitment. Project activities included a whole range of initiatives meant to support the PD. Action plans were drawn up and revised every three months. The drafting of legal documents and pieces of regulation was carried out through the presentation to the PD of a final draft of regulations on tender and direct negotiations. Seminars were delivered by project experts on company “legal due diligence” to international standards and on the preparation of enterprises for privatization. A code of good practices was compiled, including all documents and recommendations provided by the project team. Further support to the PD included assistance to its Public Relations department in the organization of several activities. The aim was to inform the general public on the PD’s activities and on the privatization framework in Moldova. For this purpose several printed materials were prepared: quarterly newsletters, brochures and an investment guide. Interviews and articles on privatization issues in Moldovan newspapers and announcements of tenders in international newspapers were published. A number of press conferences were organized together with TV and radio programs. The PD’s website was updated and official tender announcements were published through the Internet.

The privatization component was almost an outright failure. This mainly depended on a number of external factors (privatizations subject to parliamentary approval, shifting political priorities, delays related to Government’s reshufflings, etc.) clearly out of the contractor’s control. However, some aspects of project management were prone to produce only limitedly effective results. Significant efforts and resources were seemingly spent on financial audits and other legal aspects (a work that would have been at any rate replicated by the prospective investor) to the detriment of marketing activities. The project operational staff (in particular, the foreign short term experts) had a very high turnover and it may be wondered whether they were left with enough time to become familiar with the companies’ files. As a matter of fact, it was only after the *Conversia* component was dropped and two long-term positions were created respectively responsible for marketing activities and financial analysis that the project achieved to privatize something: *Zorile* and *Moldavia Cine*.

The Conversia component was abandoned during project implementation. The project was only able to visit the companies controlled by *Conversia* in order to assess their potential for joint venture partnerships. Seven joint venture proposals were selected and on two of these the project team started to work: *Topaz* plastic cups and *Medi-Farm*. For the first company the relevant documents, including the business plan, were prepared. When a potential partner (a Turkish company) was found (by *Topaz* management) the project was supposed to support negotiations through the financing of a trip to Turkey, which however never took place because *Topaz* could not afford to pay travel expenses for its staff. A bit more of generosity from the project would not have harmed.

### 3.3 Sustainability

Considerations regarding sustainability can be formulated for the institutional support component only. Local consultants received a good exposure to privatization techniques and the positive effects of this learning by doing process are going to remain. As far as the PD

staff is concerned, some human capital build up was again achieved, but it is by no means assured that the team as a whole will continue to operate in the same capacity the future.

### 3.4 Impact

Given its limited scope and even more limited results, the project could not have any significant impact on the enterprise restructuring process, let alone the Moldovan economy at large. At any rate, at this stage the real importance of privatizations in strengthening the Moldovan industrial structure should not be overrated. In several cases the companies to be privatized have already been spoiled of equipment (*Moldcarton*) or their commercial contacts have been transferred to other commercial entities. An example of the latter is the famous *Cricova* winery, included in the list of strategic companies to be privatized. Indeed, a privately owned “clone” company, *Cricova-Acorex*, has been created with the purpose of exploiting the *Cricova* brand-name and commercializing *Cricova*’s products abroad. As a result the real *Cricova* has been increasingly deprived of any real operational content and its work force is reportedly laying idle, having received no wages for months.

In the opinion of some local counterparts, “the more lasting impact of the project is the opening of Raiffeisen’s local branch in Moldova”. This evaluation team has no doubt that the activities of Raiffeisen AG as a commercial entity were kept duly separate from those undertaken as a Tacis contractor. Still, the fact that in Moldovan circles perceptions were sometimes different should not be discounted lightly. In this respect, the fact (also noted by the Monitors) that project initiatives were sometimes advertised in the media without an explicit mention to Tacis did not help in eliminating ambiguity.

#### Assessment by the Monitoring Unit

The project received good ratings in the initial phase, but then the monitors became increasingly skeptical, especially regarding sustainability. As for the achievement of outputs, the November 1999 monitoring report even introduced a distinction between the two components (*Conversia* had already been dropped by then), with a good rating for the support to PD component and a negative mark on the privatization of enterprises. The ratings of the monitoring reports were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor).

	02/99	05/99	08/99	11/99
Implementation of activities:	C	B	D	B
Achievement of outputs to date:	B	C	C	B/D
Appropriateness of workplan for next 6 months:	B	C	C	C
Ability to achieve objectives:	B	C	C	C
Potential sustainability:	B	C	C	D





## Profile #3

**Support to Privatization I**

<b>Official Title:</b>	Technical Assistance for Implementation of the 1993 94 Privatization Program
<b>Reference Number:</b>	PRMOL 92.01
<b>Contract Number:</b>	94-0176.00
<b>Location:</b>	Chisinau
<b>Contractor:</b>	CNA Veneto (Italy)
<b>Partner Institution:</b>	Ministry of Privatization and State Property Administration
<b>Start Date:</b>	March 1994
<b>Completion Date:</b>	March 1995
<b>Budget:</b>	€ 940,000
<b>Manpower:</b>	LTE 15 man/months STE 38 man/months LC 70 man/months

**1. INTRODUCTION**

The project was aimed at supporting the Ministry of Privatization and State Property Administration (MPSPA) in carrying out the 1993-94 Privatization Program<sup>1</sup>. As a matter of fact, the project arrived in Moldova when the former department of privatization was being transformed into a full fledged Ministry and this caused some delays in the implementation of activities. However, the period of project implementation was a time of high enthusiasm both from the beneficiary's side and from Tacis. Furthermore, the project was aided by a favorable political context since the incumbent Government was very much supportive of privatization and did not lack in its backing of project activities. Nevertheless, the project's overall contribution and impact was not particularly significant. It never became really visible and left very little behind. Included in the 1992 Action Program, the project started in March 1994 and ended after a year in March 1995.

**2. DESCRIPTION****2.1 Objectives**

The main objective was to support the development of the private sector in Moldova by supporting the Government in the restructuring and privatization of state enterprises.

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<sup>1</sup> The program envisaged the sale of 1,639 enterprises, which amounted to 40-50% of state assets. The majority (1,595) was to be privatized free of charge through the subscription of National Patrimonial Bonds, 37 for national currency and the rest for foreign currency.

## 2.2 Activities

Project activities were organized in seven main components, namely:

1. Support to the computerization of the MPSPA
2. Public relations in support to privatization
3. TA to companies under privatization
4. Legal advice to MPSPA
5. Assistance for the development of a securities market
6. Bottom-up privatization
7. Training and internships

## 2.3 Implementation

**Support to computerization.** Initially, this component was hampered by the change in the beneficiary organization, which shifted from the State Department for Privatization (SDP) to the MPSPA. Software programs related to the privatization process were installed at the MSPA and its territorial agencies. The creation and distribution of the software and relative training was subcontracted to a local software house.

**Public relations.** PR activities concentrated on the assistance to MPSPA officers working in territorial agencies. These officers were provided with supporting materials for public information and reporting functions. These instruments conceived as formats to be used on the PCs of the territorial agencies were thus installed and illustrated to the final users through on-the-job training.

**TA to companies under privatization.** A small number (5) of companies was selected by the project for assistance in privatization. TA was to be provided to prepare these companies for participation to the auctions within the mass privatization scheme implemented by the MPSPA. In fact, TA consisted of just an analysis of the economic and financial situation of the enterprises and a report on each of them. All companies selected in the project portfolio were subsequently privatized.

**Legal advice.** The project proposed modifications of existing legislation: property law, law on commercial companies, law on enterprises and related environment, bankruptcy law and related procedures on the regulation and for the bailout and reorganization of state enterprises. The recipient of this component was the legal department of the MPSPA, but contacts were established also with other ministries. As part of this component, a proposal for a revised law on bankruptcy was prepared.

**Assistance for the development of a securities market.** Support was provided to the setting up of the Chisinau Stock Exchange through the organization of seminars, a conference and a study tour to foreign stock exchanges in Milan, Ljubljana and Trieste. The Moldovan delegation, headed by the vice minister of the MPSPA, was made up of authorities and officials involved in the creation of the stock exchange. Subsequently, training was provided to local trainers. These were then involved in delivering two courses: a first one for future brokers (which included a simulation of real actions and role play strategies) and a second one for financial managers of large enterprises. A conference on capital markets and the stock exchange was also organized with the participation of other donors and Moldovan institutions.

**Bottom-up privatization.** This component aimed at implementing pilot schemes of privatization in order to generate new private “spin-off” companies through a bottom-up process. This was to be a complementary activity of mass privatization. The first idea developed by the project was that of setting up a business incubator. A collaboration was established with the Tacis project “SME Development Agency/Business Communication Center” and with the Association of Moldovan Industrialists. Negotiations were started with officials and the management of the state enterprise *Vibroapparat* which was to provide premises. A feasibility study and a business plan were even carried out. But when *Vibroapparat* was included in the list of companies to be liquidated to fulfill World Bank requirements for loan disbursement, the initiative of the business incubator was grounded to a halt and never reconsidered. Project activities subsequently re-focused on two large enterprises (the confection factory *Buchuria* and the shoe producer *Zorile*) within the framework of the Enterprise Isolation Program, with the formulation of plans and recommendations for their financial restructuring.

**Training and study tours.** An assessment of needs was carried out as a first step to address the operational guidelines of all training activities. Faced with requests from Moldovan officials to enhance such activities, the project increased the number of man/months devoted to this component. Training was provided to key persons involved in the privatization process through specific workshops, sessions organized abroad and on the job. Some problems emerged with MPSPA staff which being in a situation of overwork could not devote the necessary time and attention for the training to have its best effect.

## 2.4 Relations Contractor/Partner Organization

Most of project activities were implemented in close collaboration with the partner organization. The contractor developed fairly good relationship with officials of the MPSPA and even with the minister himself. Indeed, regular consultations with the top official facilitated project implementation and proved helpful in the solution of problems when they emerged. However, these good relationships never made it possible for the project to “take off” and not be considered as a marginal component of the Ministry’s activities.

## 2.5 Coordination with Other Activities

Tacis activities were directed to a priority area that attracted massive efforts from other donors, especially USAID. And indeed, it was mainly USAID that provided the key support to run the voucher scheme and create a securities market. The overwhelming American presence could not but marginalize Tacis’ presence and possible contribution. The project team also tried to collaborate with the World Bank on the enterprise liquidation project. The World Bank team worked together with the project local legal expert to analyze the possibility of voluntary liquidation according to the Moldovan law. These attempts however failed, due to widespread political resistances against the use of bankruptcy procedures as an instrument for enterprise restructuring.

### 3. EVALUATION

#### 3.1 Relevance

Judging from its title (“Technical Assistance for Implementation of the 1993-94 Privatization Program”) the project would seem highly relevant. After all when it started, the 1993-94 Privatization Program was under way and enterprises were being privatized through a voucher scheme broadly inspired by the Czech model. Furthermore, there was broad political support for these activities and the Government which took office in April 1994 after the general elections was very much reform oriented. Even the choice of the partner organization was fully relevant since the newly established Ministry was directly in charge of privatization. However, it was never fully clear what the project was really about. Since mainstream privatization activities were already covered by USAID, the project did not have a clear focus and the project team had to reorient activities towards a number of minor items and dissipate energies along many not completely related components.

#### 3.2 Effectiveness

Project activities aimed at upgrading the MPSPA and its departments were moderately successful. Legal advice concentrated on important issues but it was certainly not through legal advice that the resistance to implement bankruptcy procedures could be overcome. As for the “TA to selected enterprises” component, the five enterprises assisted were all privatized, but the contribution of the financial reports prepared under the project is unclear. A complete failure was the project’s attempt to foster “bottom-up privatization”: hardly any result was achieved within this component, apart from the formulation of recommendations and plans for two enterprises to be restructured. The idea of business incubator that had emerged at some point was abandoned.

#### 3.3 Efficiency

Overall, the project was not cost-effective, considering the meager results achieved. This impression is reinforced by the way resources were spent. Over € 170,000 (18% of total budget) were devoted to the procurement of transport vehicles and a whole range of office equipment such as computers, photocopy machines and printers. While the 15 laptop computers and 16 PCs are justified by the need to strengthen (actually, “computerize”) a newly established government unit, the rationale for the minibus and the 12 *Lada* cars also bought by the project appears less convincing.

#### 3.4 Sustainability

Given the limited results achieved, there was very little to be sustained. Even in the case of activities in support of the Ministry, sustainability was limited: when the Ministry was disbanded and a new privatization department within the Ministry of Economy and Reform created most of the personnel trained under the project was changed (see Profile#2). Local experts recruited and trained under the project had a chance to remain in the same line of business when they later joined local consulting companies affiliated to the contractor (the

establishment of a commercial presence in the country seems to be a recurrent theme in the case of contractors working on privatization projects in Moldova ...) but it is doubtful if this can be regarded as an example of sustainable results (and at any rate, the consulting companies are presently no longer in operations).

### **3.5 Impact**

The project clearly did not have any lasting impact on the privatization process. But this is not due only to its weaknesses in design and implementation. In the mid-1990 the privatization program was significantly slowed down due to growing political opposition and even a well conceived and professionally implemented project would not have done anything to avoid this.



## Profile #4

**Pilot Rural Privatization - Orhei**

<b>Official Title:</b>	Pilot Project in Privatization in the Raion of Orhei
<b>Reference Number:</b>	FDMOL 9402
<b>Contract Number:</b>	95-0042.00
<b>Location:</b>	Chisinau
<b>Contractor:</b>	GFA (Germany) - STOAS (Netherlands)
<b>Partner Institutions:</b>	Orhei Raion Executive Committee and Ministry of Agriculture and Food
<b>Start Date:</b>	April 1995
<b>Completion Date:</b>	December 1997 (after 3 + 6-month extensions)
<b>Budget:</b>	€ 2.4 million
<b>Manpower:</b>	LTE & STE: 133 man/months (+ 5.5 man/months for the extension) LC: not available

**1. INTRODUCTION**

This project can be considered as one of the pillars of the first phase of Tacis agricultural strategy in Moldova. It aimed at creating an easily replicable pilot land privatization model. This model was conceived so as to include a number of post-privatization support activities and achieve “an integrated approach” to land privatization. The idea for this initiative dates back to the 1993-94 Action Program conceived in a relatively liberal political environment. However, actual implementation took place in a totally different context. In fact, the project started in April 1995 only two months after the Land Code was amended with the introduction of substantial restrictions to land privatization. It was only after the February 1996 decision of the Constitutional Court that land privatization became again possible. Since then the project entered into a sort of competition with a parallel USAID land privatization scheme, the so called “Land Project”, that eventually resulted in the prevailing land privatization model.

The project had two different counterparts: the Ministry of Agriculture and Food (MAF) at the central level and the Orhei *Raion* Executive Committee (REC) for local implementation activities. The MAF was (and partly still is) generally considered as the stronghold of the opponents to any reform in agriculture. This was even more the case in the mid 1990s, when the Agrarian Party went to power. On the contrary, Orhei was deemed to be a reform-oriented *raion* at that time, since it had been one of the first districts to start the process of land and housing privatization. Originally planned for a two-year period the project received two extensions for a total nine additional months at no cost for the Commission and ended by fall 1997.

## 2. DESCRIPTION

### 2.1 Objectives

The project originally had a sort of three-pronged wider objective: (i) to serve as a “pilot trial” to spot inconsistencies and inadequacies in the existing legislation on privatization and land distribution for subsequent amendments; then (ii) to set up local based support structures to farmers such as service offering farmers’ associations and service cooperatives for which no tradition existed in Moldova and (iii) last but not at all least to serve as a successful large scale (*raion*) land privatization scheme easily replicable in other regions. Therefore the privatization scheme had to be workable, cost-effective and relatively simple (“should request only limited national financial and infrastructure support”). Furthermore, the project had to leave behind self-sustainable public institutions and profitable market entities<sup>2</sup>.

The wider objective was articulated (or rather re-formulated) into three specific objectives:

1. promote the privatization and land distribution process at the *raion* level through the setting up of administrative support structures (e.g. a cadastral office, an extension service);
2. create “model structures” in support of private farming, with the establishment of service cooperatives, the organization of input supply and marketing cooperatives and the assistance to credit organizations;
3. disseminate the model developed in Orhei to other *raion*.

### 2.2 Activities

The project had eight major components, namely:

1. Legislation support and lobbying at the MAF level;
2. Setting up of public support services for promoting privatization and land distribution;
3. Establishment of an agricultural advisory service;
4. Support to land privatization (also referred to with the more neutral expression of “farm restructuring”);
5. Creation of service cooperatives;
6. Assistance to local food processing units;
7. Training for bank staff in credit applications and investment appraisal;
8. Information dissemination on the project experience and agricultural reform issues.

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<sup>2</sup> Subsequently, in all project documents the contractor summarized the wider objective in the following sentence “to reach a more cost-effective and efficient agricultural production through restructuring and privatization of state-owned and collective farms and promotion of input-supply and marketing cooperatives”.



## 2.3 Implementation

Because of its previous experience in the country the contractor had a relatively quick start. After a general survey of agricultural activities and agro-related services in the Orhei district, seven villages<sup>3</sup> were identified as candidates for carrying out project activities. No objective criteria was reportedly used for village selection. From then on the project's implementation was notably characterized by a fairly lengthy participatory approach.

**Legislation and Lobbying at MAF Level.** Despite the continuous presence of a liaison office within the MAF, manned by the project team leader, the project was never able to ease the ministry's opposition to the privatization process and to win real support for the service cooperative model. It tried several times to provide advice to the MAF in the formulation of legislation to support agrarian reform and the private agricultural sector, but to no avail due to the ministry's non responsiveness. Major legal issues included: land tenure, peasant farming, private entrepreneurship and cooperatives. In particular, no special legal framework was developed for the service cooperatives that had thus to be established as "consumers' cooperatives" and made subject to VAT.

**Public Support Services for Land Privatization and Distribution.** The project helped in the re-organization of the Agricultural Department (AD) of the REC through the provision of IT equipment and the training of its staff. Most importantly, the cadastre section of the REC was assisted with the aim of simplifying and speeding up land distribution and registration procedures through decentralization. Yet, the fact that the local cadastre was not authorized to issue land titles rendered vain most of these efforts. Land titles should have been issued in collaboration with some central structures, such as the National Agency of Geodesy, Cartography and Cadastre (NAGCC), but this cooperation was never established. Instead, the NAGCC worked closely with the USAID Land Project which had developed another computer program for land division.

**Agricultural Advisory Service.** A rudimentary form of extension service was set up to provide technical and socio-economic advice to farmers. The advisory service was manned by "first-line advisors" at village level, backed by the specialists of the AD-REC as "second-line advisors". After a year though, salaries of "first-line advisors" stopped being financed by the project (as had been planned) and they had to resort to small funds from the Dutch Embassy to carry out a series of field demonstrations. Moreover, Tacis consultants had difficulties in convincing the farmers on sharing information with the advisors. Problems developed also for the "second-line advisors" at the district level, the main reason being that, as AD regular staff, they had to continue fulfilling old tasks which mostly concerned large-scale farms alongside the new tasks. The main project initiative within this component, was the setting up (within the building of the Orhei District Administration) of an information center to provide farmers advice on agronomic practices, farm management and market information.

**Land Privatization/Farm Restructuring.** In order to carry out farm restructuring activities, the project chose to proceed with a participatory approach. Indeed, villagers were informed about every project step in public meetings, where different alternatives of privatization and restructuring models were elaborated and discussed. Cooperation with the

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<sup>3</sup> The selected villages were Braviceni, Ciocilteni, Crihana, Ghetlova, Peresecina, Trebujeni and Viscauti.

REC was established and it was decided to carry out land distribution combined with the reallocation of assets of the former *sovkhoz* or *kolkhoz*. The objective of the restructuring process was to create units that would be registered as farmers' associations (it must be remembered that after the 1995 amendments to the Land Code, the establishment of individual farms had become *de facto* impossible and therefore creation of farmers' associations had become the only way to continue the privatization process). In every municipality a Land Commission was created with the task of identifying the size of land shares and handing provisional land certificates to peasants. Reorganization Commissions were instead set up at the level of collective farms to implement the reallocation of assets. These were responsible for the distribution of agricultural machinery and buildings, the reorganization of animal husbandry and processing facilities, and the liquidation of debts. Eventually, part of the most dividable assets of the collective farms were transferred to its legal successor, i.e. the farmers' association. Instead, other less dividable assets such as buildings, storage and processing facilities, etc., were assigned to the project's most cherished creation, the service providing cooperative.

**Establishment of Service Cooperatives.** The project assisted and financially supported the creation of model service cooperatives. Registered formally as "consumers' cooperatives" since the Moldovan legislation did not include the concept of service cooperative, they were designed to provide a range of services, from agricultural machinery services to the supply of inputs, the marketing and processing of agricultural produce. The setting up of service cooperatives was a long process, which the contractor attributed to the adoption of a participatory approach (but the novelty of the concept also played a role – see below). The project also provided grants for the procurement of new equipment and to repair and rehabilitate the existing facilities. In many cases it seems that it was this grant component playing the key role in persuading villagers to adopt the service cooperative model.

**Assistance to Local Food Processing Units.** The projects assisted food processing lines in pilot villages with advice on the formulation of business plans and credit applications. For instance, in the village of Bravicieni a production cooperative engaged in dairy products was assisted financially in the procurement of equipment; in Peresecina the local cannery was helped in preparing a business plan, etc.

**Training of Bank Staff.** This project component was meant to be implemented in two phases: the setting up of a rural credit scheme and the delivery of training programs. Implementation of a rural credit scheme proved itself not feasible since *Agroindbank* (Moldova's main bank, particularly active in rural areas) did not agree on the proposed scheme. Training in credit applications and investment appraisal was provided to *Agroindbank* staff, while several farmers in the pilot villages were assisted in preparing loan applications. Problems emerged due to the fact that farmers could not satisfy the bank's stringent conditions for credit applications. Indeed, farmers' associations could not have access to credit because of the lack of collateral and in most cases because of the pending debt problems inherited from the collective farms.

**Information Dissemination.** Dissemination about the project experience in agrarian reform and about reform issues to other districts was carried out through the media and a series of brochures and leaflets. A relevant role in the campaign was played by the information center established in Orhei. A film designed to inform the rural population about agrarian reform issues was financed and broadcast on national TV, but its audience must have been rather limited considering the difficulties of watching TV in rural areas where electricity

problems are usual aspects of daily life. The film was also shown in other districts by the information center staff and discussions were sometimes organized.

## 2.4 Relations Contractor/Partner Organization

Throughout implementation relations between the contractor and the MAF were generally uneasy being the ministry mostly dominated by opponents of privatization (but a better relationship was established on a personal basis with the vice minister and future director of ARA). On the other hand, relations with the local government in Orhei were smooth and local authorities were supportive throughout implementation (also in tangible ways: they provided office space for free and paid for all office expenses such as telephone and heating bills).

## 2.5 Coordination with Other Activities

Since day one the project was in competition with USAID, which had a similar operational approach (a pilot project, in the district of Nisporeni) but was inspired by a totally different philosophy (focus on land privatization only, with emphasis on the establishment of medium sized commercial farms entrusted to local leaders). According to the Tacis contractor the Americans were less democratic in the way they were working since they were not using a participatory approach and their objective in land privatization was the creation of private limited companies of big dimension. Indeed, the Land Project attributed a major role to local leaders (mostly former *kolkhoz* and *sovkhoz* managers and technicians) who assumed the functions of new private farmers and became the protagonists of the newly established commercial entities. Also (and somewhat more importantly) the land distribution methodology adopted by the two projects slightly differed so that in a few villages (such as Crihana, Bravicieni and Ghetlova) problems emerged when the Land Project came to town and reorganized land quota calculations and distribution. Indeed, since the new distribution did not match the distribution lists prepared by the Tacis project, a major row among landholders ensued.

## 3. EVALUATION

### 3.1 Relevance

The idea behind the project was to implement a pilot trial at local level to be replicated throughout the country. In order to achieve replicability, project activities should have been simple, workable and cost-effective. Yet, already from the specific objectives stated in the TOR it is evident that the project had set itself too ambitious tasks and lacked a clear focus. Indeed, it aimed at carrying out both privatization and post-privatization activities. This clashed with any possible idea of easy replicability. Furthermore, the project should have had the necessary political backing from its partner institution if it was to be implemented elsewhere in the country. But, real political support from the MAF did not exist at the time the project was designed and was not obtained later on during implementation. The American experience showed that replicability was a myth to the extent that any substantial Government's commitment was envisaged. It was only thanks to a massive investment from USAID that the Land Project model could really become replicable in Moldova.

The project TOR were elaborated in 1993 at a time when the land privatization process was developing in a relatively liberal political environment. The 1992 Land Code had indeed allowed the ownership and sale of land and the transformation of *sovkhoz* and *kolkhoz* into new forms of legal entities. An effect of the reform process was that many members of the former collective farms actually took hold of land plots and assets informally. Yet, land reform merely constituted a formal reorganization which did not lead to a real restructuring of the agricultural sector according to the rules of a market economy. In fact, the new privatized entities mainly *sovkhoz* and *kolkhoz* turned into joint stock companies continued to work as in the previous command economy. High production costs and payments in arrears for taxes, social fund contributions, wages, commercial suppliers and banks characterized this production system. Those who conceived the project thus were genuinely concerned that a real privatization had to be carried out through a process of farm restructuring whose ultimate aim was the creation of the individual family farm and that cooperation between family farms could be accomplished by farmers' associations and service cooperatives.

Confusion was created by the fact that following the 1995 amendments to the Land Code though, land privatization became possible only by setting up farmers' associations which could easily be perceived as small *kolkhoz*. The contractor had thus to adapt to the new situation and farmers' associations had to be considered as the "counterpart" at the village level in order to carry out the farm restructuring process and to set up its model of service cooperative. Indeed, cooperatives were constituted based on the assets of the farmers' associations, while membership of the two organizations mostly coincided.

### 3.2 Effectiveness

The project's achievements in land privatization were limited. The Orhei initiative never tackled the operational problem of issuing land titles (it was too costly) nor addressed the political issue of contrasting the land privatization approach proposed by the Government. Even if the contractor had wished to do so, they would have needed a strong political backing behind them that was clearly not available. They therefore merely provided technical support to the Orhei administration in confirming decisions that had already been taken at the village level. Under this respect the Tacis initiative took a very neutral stance that deeply contrasted with the more radical approach promoted by the USAID.

The objective of creating modern support structures for farmers was only partially achieved. Eight service co-operatives and one private service enterprise were indeed founded thanks to the project, but most of them did not go beyond the stage of the common management of agricultural machinery, with little or no involvement in the supply of inputs and in marketing. Some limited results in strengthening public services were reached at the *raion* level. The Orhei Agriculture Department was provided with training and computers, the cadastre section was assisted with the installment of a cartographic system & related database application and the staff was properly trained. On the other hand, the mini extension service established by the project did not play any significant role.

### **3.3 Efficiency**

The project was not cost effective, but this because of the limited results achieved, not because of excessive costs. Indeed, the unit cost of TA provided under the project was rather modest. When the some € 640,000 earmarked for equipment, training, and the information campaign are deducted from the total budget, the average expenses per month of foreign expertise is around € 13,000, certainly not an excessive figure. Overall, the impression is that project activities were implemented in a fairly efficient way. Certainly, the participatory approach adopted made things more complex and required more time than other methods would have required. But this was an essential feature of the project.

### **3.4 Sustainability**

The project has left limited sustainable results behind. In most cases the service cooperatives either proved to be non-viable economic entities or changed their nature and got involved in production activities. The local processing lines had a similar fate. The public support structures created by the project also did not prove sustainable and were discontinued by the local administration as soon as the project team left Orhei. This should not be regarded as a bad surprise because it would be overoptimistic to expect farmers to pay for the full cost of the information services received and the local administration was clearly not in the position to commit budgetary means. What happened to the first-line advisers is a case in point. Indeed after a year, funding from the project budget stopped as had been planned. Afterwards, in view of a lacking national policy for agricultural extension and the shortage of funds at the raion level the service had to be reduced to a series of field demonstrations supported by the Dutch embassy and the Tacis seeds project. After that everything was stopped.

### **3.5 Impact**

The project had virtually no impact. At the national model, the project was never able to influence the land privatization process either through policy & legal advice to the Ministry or through the example of results achieved with the pilot. On the contrary, while the USAID parallel pilot in Nisporeni (in spite of its own flaws) had become the reference model and was being implemented throughout the country, the Orhei pilot was confined to the status of a case study. At the local level, in some cases the service cooperatives and the modernized processing units contributed to improve, at least temporarily, the livelihood of a few hundred people, but this can be seen as an almost direct consequence of the money spent by Tacis in equipment and other out of pocket expenses.

### Assessment by the Monitoring Unit

The project received good ratings from the Tacis Monitoring Unit both in the beginning and at the end while the July 1996 and January 1997 reports gave a worse judgment, mainly due to delays in implementation. On the whole, the project was regarded as successful by the monitors. The ratings of the monitoring reports were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor)

Monitoring Reports	02/96	07/96	01/97	07/97
Implementation of activities:	B	C	C	B
Achievement of outputs to date:	B	C	D	C
Appropriateness of workplan for next 6 months:	B	C	C	B
Ability to achieve objectives:	C	C	D	B
Potential sustainability:	C	C	C	B

## Profile # 5

**Marketing of Agricultural Products**

<b>Official Title:</b>	Improved Marketing of Agricultural Products
<b>Reference Number:</b>	FDMOL 9501
<b>Contract Number:</b>	96 – 5224.00
<b>Location:</b>	Chisinau
<b>Contractor:</b>	Agrotec Spa (Italy)
<b>Other Contractors:</b>	Moldconsult (Moldova)
<b>Partner Institution:</b>	Ministry of Agriculture and Processing Industry (MAPI)
<b>Project Start Date:</b>	September 1996
<b>Completion Date:</b>	June 2000 (after a 9 month extension)
<b>Budget:</b>	€ 1.3 million + € 250,000
<b>Manpower:</b>	LTE: 50.5 staff/months STE: 24 staff/months

**1. INTRODUCTION**

Included in the 1995 Action Program, the project started in August 1996 and was planned to end in September 1999 but received an extension till June 2000. The project followed up another Tacis initiative, the Agricultural Export Promotion Bureau (implemented by the same contractor) and was aimed at supporting the development of efficient distribution channels for agricultural products primarily through the provision of agro-marketing services (dissemination of market information, some business promotion actions). Relations with the partner organization, the Ministry of Agriculture and Processing Industry (MAPI), were not always smooth, mainly because of financial aspects (computers, use of premises, etc.), but in the end the situation improved somewhat. The project was professionally implemented by the contractor and was able to establish good relations with the local media. Because of its long duration (45 months) and excellent visibility the project has become one of the Tacis flags in Moldova. Still, one is left with the impression that the initiative was significantly ahead of time. Indeed, when the project was conceived (and even today), the effective functioning of agricultural markets was hampered by other, more structural factors (lack of warehousing facilities, problems at border crossings, etc.), in addition to the lack of information and experience in dealing in a open economy.

## 2. DESCRIPTION

### 2.1 Objectives

The overall objective of the project was to support the development of a profitable and sustainable market-oriented agriculture in Moldova through assistance aimed at promoting:

- a better supply of locally produced food commodities in the domestic market, and
- a higher efficiency of the export trade.

This had to be achieved through the provision of agro-marketing services.

### 2.2 Activities

The project was involved in the following activities:

1. Sector review and action plan;
2. Implementation of a market information system for agricultural products;
3. Export promotion;
4. Elaboration and dissemination of marketing documentation and training materials;
5. Marketing assistance to selected market operators;
6. Training on economic and marketing matters for market operators;
7. Assistance for participation in foreign and local trade fairs and business trips;
8. Promotion of inter-professional relations;
9. Public relations campaign.

### 2.3 Implementation

**Inception Phase.** During the inception phase, the contractor established contacts with practically all projects involved in similar activities, including Tacis marketing projects in other countries of the former Soviet Union. Cooperation between the project and other donors, as well as with the Moldovan Institute of Advanced Training in Agriculture (IMATA) was decided upon. The project even agreed with the partner institution on the use of resources left over from the previous Tacis project “Creation of an Agricultural Export Promotion Bureau”, which included equipment, office space and some staff. In cooperation with the MAPI, the project reviewed the food marketing sector. Based on the results of this review, the project elaborated an action plan with more accurate details on planned activities.

**Market Information System.** A Market Information System (MIS) was created to collect, process and disseminate information on prices of the food market for Moldovan market operators. Retail and wholesale prices concerning fruit, vegetables, meat and other food products in selected domestic and foreign markets were gathered through a network of collectors. Information was also collected on agricultural input prices (mainly fertilizers and chemicals). The MIS started operating in February 1997 run by staff of the Central Agricultural Market Information Bureau (CAMIB), established within the premises of the MAF. Weekly summaries of market prices were thus prepared and disseminated through the local press, national radio stations, direct delivery of hard copies and by e-mail. From April 1999, bulletins were put on sale (with the possibility of monthly subscriptions), but continued mostly to be delivered free of charge to the Ministry and to local media. Summaries of the weekly information were included in the project monthly newsletter *Noutatile Pietei Agricole*. Moreover, both weekly and monthly market summaries were entered into a website created



by the project. There was an attempt to include also information on the prices of cereals, but it was abandoned when it turned out that the market was not transparent enough to collect reliable data.

**Export Promotion Bureau.** An Export Promotion Bureau was set up to monitor developments in external markets and promote export operations. This component can be considered as the direct continuation of the previous Tacis project. The main output was a monthly newsletter with extensive analyses of international markets deemed relevant for Moldovan operators and information on customs legislation, trade statistics and business contacts. The newsletter was based on secondary sources of information, such as foreign and domestic publications, the Internet, the Moldovan Customs Department and the specialized data-base Superlex. In a first phase the newsletter was distributed free of charge through various organizations<sup>4</sup>. Starting from February 1999 the newsletter was put on sale by CAMIB.

**Business Information System.** The project was also involved in developing specific export opportunities by putting in touch local traders with potential foreign buyers. To further this kind of activity and to help Moldovan operators in becoming familiar with the use of the new information technologies (notably the Internet), the project set up a Business Information System (BIS) based on a trade web-site and on several data-bases on potential exporting/importing companies. Marketing information was provided with the production of articles on topics and countries of major interest for Moldovan food and agricultural operators. Additionally to these articles, the project was engaged in collecting, translating and adapting relevant material from Internet sources. Demand driven criteria were increasingly followed by CAMIB to implement activities of this component with a view to raise funds for increasing its self-sustainability. Promotional campaigns were organized and the number of customers visiting CAMIB offices increased consistently. Their requests included updated quotations for commodities or products, lists of foreign exporters/importers, information on tariffs and import regulations.

**Direct Marketing Assistance.** The project set out to provide direct marketing assistance to enterprises in four sectors regarded to have a good export potential: dairy, wine, food processing, and walnuts. The TA was provided by short term specialists who prepared action plans with the necessary interventions, expected results, timing and support needed from other project components for each enterprise.

**Training.** The project was also involved in the provision of training sessions and education materials in economic and marketing matters to market operators. Project specialists and a working group set up at IMATA organized a series of regional seminars on various topics: wine marketing, agricultural produce marketing, sunflower and beans marketing, cooperatives creation. Two editions of a Marketing Information Training Book were produced and distributed. Contacts were established for its adoption by local universities but to no avail. Some copies were sold to university students and teachers and US Peace Corp volunteers, but sales were rather limited due to the high price. The project also supported the participation of CAMIB members to specific events and workshops with the aim of strengthening their skills in domains relevant to project activities and future operation of the NGO.

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<sup>4</sup> The National Federation of Farmer Associations, Agroindbank branches, the Chamber of Commerce, Industry and Trade, Food Associations, IMATA, Peace Corps, Business Centers, NGOs and processors.

**Trade Fairs & Business Trips.** The project also provided assistance to Moldovan operators for participation in trade fairs and business trips. In particular Tacis financed a “Mold-Agro-business” stand in a major trade fair in Moscow where several Moldovan companies had the opportunity of establishing new business contacts. Two business trips to Italy were organized for representatives of Moldovan wineries. The second tour concerned a visit to the wine trade fair Vinitaly '99. Finally representatives from major Moldovan wineries and canneries were able to attend the International Trade Fair in Poland where they reportedly succeeded in receiving substantial orders.

**Promotion of Inter-Professional Relations.** The project also aimed at creating inter-professional associations in the agro-food sector. It focused its activities on the support to the creation of a National Dairy Association as a model for reorganizing the industries of the food sector. A general agreement to form the association was reached. Subsequently, the TOR for the jobs of its staff and an action plan were prepared in collaboration with the local project partner Moldconsult. Documents produced within this initiative were distributed among local dairies and officials of the MAF. Based within MAF premises, the Association started operating in February 1999 grouping more than 10 dairies.

## **2.4 Relations Contractor/Partner Organization**

In a first phase relations with MAPI (at that time Ministry of Agriculture and Food – MAF) were mostly good. The Ministry even took into account the possibility of setting up market information offices in all districts to enlarge the scope of the market information produced by the project. Subsequently though, when the main contact person in the Ministry left, the project remained without real political support. From then on, relations (especially at the highest level) got strained: continuous pressure to provide equipment to the ministry, requests for payment of rent for premises made and cancelled several times. At a certain point, even the Moldovan Court of Auditors was asked to intervene with an inquiry on how Tacis money was spent in Moldova. The Ministry also resented the decision to transform CAMIB into an independent entity (see below) and, as a reaction, it proceeded with the establishment of its own “commercial center” (whose activities were subsequently halted because of lack of financial resources) with the aim of providing consultancy and information for buyers and sellers of agricultural products. Only towards the project’s end relations with the Ministry’s Department for International Economic Co-operation improved again and a good working relationship was re-established.

## 2.5 Coordination with Other Activities

There was a very good working relationship especially with the Tacis Agroinform project. CAMIB collaborated with Agroinform on several activities, such as the setting up of a data-base to monitor price variations of agricultural inputs in Moldova. Another area of cooperation was at the level of the regional centers set up by Agroinform project, which became responsible for operating the BIS trade site at the local level. Training of Agroinform staff on how to use the BIS was duly organized even though this activity had not been anticipated in the original workplan. Also, 3 market information booklets were prepared through project collaboration. CAMIB was involved in selecting the topics, in proposing the consultants to be used, in providing the material and in supervising and revising the consultant's work. Furthermore, between May and June 1999 a countrywide promotional campaign was jointly organized and developed in order to increase awareness about CAMIB and its services among local farmers, food processors and traders. During the campaign a high number of monthly newsletters and weekly summaries were distributed for free.

The weekly summaries prepared by CAMIB have benefited from the cooperation with a Phare financed MIS in Iasi, Romania. This has enabled CAMIB to exchange information on a continuing basis. A summary of the weekly information provided by the PHARE project was indeed worked out on a monthly basis by CAMIB and included in the project's newsletter *Noutatile Pietei Agricole*. Other instances of collaboration were registered in the organization of training seminars with the Tacis project "Creation of a National Federation of Farmers' Association", the micro-credit World Bank project, central and regional MAPI offices and regional authorities. After the 1998 Russian crisis, the project participated in a working group created by the Ministry of Economy to overcome the emergency situation in which the export sector had found itself.

## 3. EVALUATION

### 3.1 Relevance

The project set out to solve the problems hampering the distribution of agricultural produce since the breakdown of the planned economy. Indeed, after independence, the state-controlled marketing channels were no longer able to perform their function efficiently, while the private ones had just started developing. The project identified the strengthening of privately operated marketing capacities as a major response to this. And given the background, the relevance of the initiative is *prima facie* undisputable. However, the timing of the project appears debatable. As a matter of fact, when the project was conceived there were other "structural factors" acting as a major impediment to the development of a sound distribution network, namely the lack of financial resources for operators, the sheer scarcity of entities capable of operating as intermediaries between producers and processors, the excessively concentrated storage capacity, etc. Even today, for instance, it seems that the problems related to logistics and customs clearance hinder export potential much more than lack of marketing skills or market information. As far as West European markets are concerned, trade barriers, poor forwarding services, and low quality standards, are crucial factors hindering the development of trade. In a way, these comments (without detracting from the good work done by the project) highlight the intrinsic limitations of stand alone TA projects in situations when fundamental structural barriers (be they related to infrastructure or to policy factors) are in existence.

### 3.2 Effectiveness

Business promotion activities and direct support to enterprises were fairly successful. Participation in trade fairs and business trips led to the establishment of valuable business contacts and to the signing of some reportedly significant contracts with foreign clients. Several firms in the fruits and vegetables sector received assistance in quality management systems and in the implementation and monitoring of internationally recognized HACCP quality norms. In the wine sector, three wineries were selected with the main purpose of setting up in each of them a Marketing and Export Department. Staff expected to run these departments was involved in seminars on wine marketing and export issues and on quality management system.

Results in the area of market information dissemination are mixed. The weekly summaries on food prices have indeed provided information which is not otherwise officially available from any other source service and as such can be useful for some operators. Yet, they have reached only a small part of the potential beneficiaries, i.e. large market operators more than the individual small farmers. Direct delivery to those visiting the CAMIB office is evidently limited in scope, e-mail service is not that common and the reach of newspapers in rural areas is low. The only useful means would seem radio broadcasts although it is rather difficult to assess their audience. Summaries of the weekly information were included in the monthly newsletter but this information was already outdated to be of use and the charts used to compile data were of difficult understanding for farmers. Instead, the project monthly newsletter achieved a major reach among operators. Since it was distributed free of charge through a whole series of organizations it was available to a wide audience, even in the most secluded village. This project component thus succeeded in covering a very wide area of information to a large percentage of the rural population in Moldova. Specific market investigations were also implemented and their outcomes disseminated. Reports were prepared on walnuts, dairy products and canned products in Moldova, on wine and spirits in Latvia and Estonia and on canned fruits in Russia.

The effectiveness of the other activities carried out by the project is somewhat doubtful. The BIS, for instance, and the related trade web-site Agrocomert, a “meeting place” for buyers and sellers, did not seem a great success (a total 100 ads in five months from both Moldovan and international firms). When contacted by potential buyers from abroad Moldovan firms, still accustomed to do business face to face, often turned down requests of sending product samples for free. It is unclear whether any actual transaction resulted from this. Doubts arise also on the use of the Internet, in a country like Moldova, where access to the Internet is a privilege that very few can afford. Data on the number of accesses to CAMIB’s home page are an indication of this: on average there were about 130 accesses per week in the period between 24/01/99 and 13/05/00, of which only 10% from within Moldova (less than two per day).

### 3.3 Sustainability

The main concern relates to prospects for CAMIB. In February 1999, CAMIB was indeed registered as an NGO with the objective of continuing all market and export support activities carried out by the project. Subsequently, CAMIB started to charge for services, although at nominal levels. For example monthly newsletters started to be sold. But most of

these have been sold but to just one major buyer, i.e. the USAID Land Project.<sup>5</sup> Clearly not a strong basis for sustainability of this activity. It also started developing other information services of which the most promising are market research assignments for individual clients. However, it is not likely that within the near future CAMIB will carry the cost of market information activity. The support either from MAPI or other donors will thus continue to be necessary. The market information center started by MAPI on the second floor of the ministry building appears to have come to a halt and this might make MAPI more receptive to supporting CAMIB. However given the general financial problems in the public sector it is hard to see MAPI taking over the market information service. It would be even more difficult to take in CAMIB staff, considering the gap in the level of salaries with ministry employees. Therefore, only donor support could continue the market information service, but no interested party has been found yet. Closure of the service would mean the loss of a considerable investment by Tacis in setting it up and getting it known and accepted in Moldova. The other project activities have a reasonable chance of sustainability. Personnel in the wine and food industries have been trained in export marketing and quality production. Furthermore, study tours and participation in trade fairs have led to contacts which show good prospects of developing into investment and/or sales.

### 3.4 Impact

At the macro level the project did not (and could not reasonably) have any significant impact on Moldovan export trends of agricultural products and its impact on the efficiency of the internal distribution system was also limited. On the contrary, at the micro level, the project had some valuable impact on the companies that took part in marketing training activities or were invited to trade fairs and study tours. These were usually the large firms, but at least they had the possibility to learn about quality standards, purchase equipment abroad, establish business contacts and even sign contracts.

#### Assessment by the Monitoring Unit

Throughout the monitoring exercise, the project generally received good ratings, with a tendency towards improvement. A lower judgment was given in all reports to the potential sustainability of the project, reflecting the concern for CAMIB's future. The ratings of the assessment reports were as follows: (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor)

Monitoring Reports	12/96	7/97	7/98	10/98	02/99	07/99	10/99
Implementation of activities	B	C	A	B	B	B	B
Achievement of outputs to date	B	B	A	B	A	A	A
Appropriateness of work plan	C	C	B	C	B	C	B
Ability to achieve objectives	C	B	A	B	A	A	A
Potential sustainability	C	D	B	C	C	B	C

<sup>5</sup> Reportedly, 3,000 copies per month have been published lately. About 200 were handed out for free. Of the 2,800 that are sold, 2,500 are bought by USAID.



## Profile #6

**Support to ARA**

<b>Official Title:</b>	Support to the Agency for Restructuring Agriculture
<b>Reference Number:</b>	FDMOL 9602
<b>Contract Number:</b>	97 - 0581.00
<b>Location:</b>	Chisinau
<b>Main Contractors:</b>	Swedefarm (Sweden)
<b>Partner Institution:</b>	Agency for Restructuring Agriculture (ARA)
<b>Start Date:</b>	November 1997
<b>Completion Date:</b>	October 1999
<b>Budget:</b>	€ 993,000
<b>Manpower:</b>	LTE 27.5 man/months LC 63 man/months

## 1. INTRODUCTION

The project partner institution was the Agency for Restructuring Agriculture (ARA), an independent non-governmental organization financially supported by a grant from the Netherlands Trust Fund managed by the WB. ARA had originally been created to promote privatization in the agricultural sector, but was induced to shift to post-restructuring activities. Faced with this change of mandate for ARA, the contractor was swift in adapting to the new conditions even if the TOR had envisaged privatization as the main focus of the project. The project stands out for its flexibility and the particular approach adopted. Indeed, its rationale was based on working within the agenda of other institutions and agencies in order not to duplicate initiatives and waste resources. Included in the 1996/1997 Action Program, the project started being implemented in November 1997 and ended in October 1999 according to what planned.

## 2. DESCRIPTION

### 2.1 Objectives

The overall objective stated in the TOR was to assist ARA in the formulation and implementation of its work plan. In particular the project was to provide assistance to the four departments of the agency. The project purpose was to contribute to the privatization and restructuring of large farms, one of the main pillars of Government reform policy in agriculture. After the inception phase though, project objectives changed reflecting the shift in focus from privatization to post-privatization in the recipient institution. The way in which objectives had been formulated in the TOR did not require them to be redrafted. Project documents thus contained a new overall objective: assistance to private farmers in post restructuring activities. Specific objectives became:

- development of post restructuring policies in the agricultural and food sectors;
- assistance in the implementation of post restructuring agricultural reforms;

- coordination and linkage of involved Moldovan institutions;
- monitoring and evaluation of key indicators of land reform and post farm restructuring;
- public awareness campaign, information dissemination and campaigns;
- local capacity building.

## 2.2 Activities

The project underwent significant changes in the early stages and activities were organized into four components, namely:

1. Legal advice on bankruptcy and liquidation legislation
2. Introduction of land valuation techniques
3. Support to regional development
4. Training

## 2.3 Implementation

**Initial Steps.** It was during the inception phase that the project decided to shift the focus from privatization activities to post-restructuring. The main reason for this was that land privatization had been taken over completely by the USAID Land Project which had received full backing from the Moldovan authorities. Therefore, ARA had in a sense lost its mandate over privatization and was induced (mostly by the World Bank) to get involved in post-privatization activities. In this context, a “memorandum of understanding” between the project and ARA deciding the main project strategies was reached after the Inception Report. Once the main focus and strategies had been set, a detailed and pragmatic work plan was developed and agreed. Within this framework the project was able to deliver outputs with no significant problems. This was also possible because the contractor chose to implement activities that belonged to the Government agenda. It did not attempt to lead or bring forward initiatives unilaterally, but rather supported activities and initiatives implemented by the institutions and agencies concerned.

**Bankruptcy and Liquidation.** The project was initially engaged in assessing the debt position of farms. Debt restructuring options and alternatives were then developed based on insolvency procedures through liquidation or reorganization. In a second phase, the project focused on the review of the bankruptcy law. Starting from 1992, three different versions of this law had been prepared, while no enterprise had been taken through the whole bankruptcy procedure. A major project success was the parliamentary approval in March 1999 of the amendments elaborated by the project’s team of lawyers. The new amendments included a completely new chapter covering the so called “quick liquidation procedure”. Subsequently, a number of enterprises underwent liquidation through the new simplified procedure. Yet, the need for a new comprehensive law remained and up to three drafts of the law were prepared by the project working group. The project benefited from the collaboration of the American Bar Association, GTZ, and Tacis. At the end of project, the fourth draft was finally handed over to GTZ for it to be presented to the Government for submission to Parliament.

**Land Valuation.** Project activities in this area started with asset valuation related to debt restructuring. When it became apparent that valuation methodologies in use were inappropriate, the TEGOVA (international association of valuers) valuation standard was chosen by the project. Activities then developed according to a specific valuation agenda



drawn from the five year action plan of the World Bank Cadastral Project. Most importantly, the standard was introduced in the country and the Moldovan Association of Valuers (MAPV) was accepted as a member of TEGOVA. Moreover, the Moldovan organizations and associations were very quick in supporting the standard. Training seminars in valuation and real estate were organized for valuers of different companies. The project also supported the Moldovan representative in TEGOVA who was involved in the dissemination of training material, in the preparation of a manual on land valuation methodology and in drafting government regulations for the licensing of valuers. The merger of the two existing Moldovan associations of valuers into a unified association was promoted and a draft statute was prepared.

**Regional Development.** The rationale behind this component was again to avoid wasting resources by building something new and rather support an initiative already under way. The project thus assisted the National Farmers' Federation of Moldova (NFFM) in the establishment of a regional network of information centers. Support was provided to the organization, management and services of the centers and their activities based on the implementation of mini-projects. Project activities were concentrated in the two centers of Glodeni and Criuleni, where good working relationships were established with their staff. Initially the project provided support to the centers through the NFFM, but when it realized that funds were exposed to the risk of diversion, it was decided to move towards direct financing. In the words of the contractor: "put in a dollar at the central level and only 5 cents will reach the local one". Indeed, the contractor also became in charge of the selection of the mini-projects to be financed by the project.

**Training.** In addition to training for ARA staff a close collaboration was established with Tacis Agroinform project and its 10 regional centers, in order to train local consultants in post restructuring activities. These centers indeed provided consultancy services for agricultural restructuring, the setting up of new enterprises in processing and farm machinery use. Their objective was also to hold training seminars aimed at community and farmers' leaders on a wide range of post restructuring topics at all levels.

## 2.4 Relations Contractor/Partner Organization

During the early stages of the project, several disagreements emerged with ARA's leadership on how the project should have been conducted, but a working relationship developed after the agreement reached during the Inception Phase.

## 2.5 Coordination with Other Activities

Coordination was achieved with two Tacis projects engaged in agriculture. With the Agroinform project, a joint training coordinator was even appointed to implement training and development activities within the regional information centers. The Tacis project "Improved Marketing of Agricultural Products" provided assistance in the development of web-sites. Collaboration was achieved with US sponsored projects. The USAID Land Project was consulted for the development of valuation activities. Advice on the third draft of the bankruptcy law was provided by the American Bar Association. The NFFM was aided as regards its regional network of information centers, although other donors were involved in this initiative such as Eurasia Foundation, US peace Corp and the Dutch Government. The

project also provided data for the FAO/WB gap assessment/needs analysis carried out in preparation for the WB Agricultural Support Services Project. Coordination reached with GTZ is an interesting case of demarcation of activities between agencies. Indeed, the project initially found out that it was getting involving itself in an issue (that of bankruptcy law) on which the Germans had already been working. After clarifications though, cooperation was established. GTZ thus concentrated on the training of bankruptcy administrators and judges, while Tacis on drafting the new law. Most importantly, GTZ took over the work of the Tacis project once this was over in order to complete and foster the promulgation of the new version of the law on bankruptcy.

### 3. EVALUATION

#### 3.1 Relevance

This Tacis project constitutes an example of how a skilled contractor (and team leader) was able to successfully change the objectives and activities during implementation. While the TOR had envisaged privatization as the main purpose of the project, the inception phase determined a shift to post-privatization activities. Indeed, when the project started, the contractor found a situation where the WB (main sponsor of the agency's creation) was at odds with ARA and the agency had lost its original mandate which had been passed on to the Land Project. Therefore, the project rationale focusing on privatization was no longer relevant within the new situation. The contractor thus changed project objectives without redrafting the TOR. As a matter of fact, the general objective stated in the TOR merely aimed at providing assistance to ARA in the implementation of its work plan, while the specific ones to the agency's departments. Within the term "assistance", the contractor was able to fit in project components that were not present in the TOR. New components were the ones on bankruptcy, valuation and assistance to the NFFM in setting up a regional network.

An improvement of the bankruptcy law was highly relevant to the needs of the agricultural restructuring process. Indeed, the bankruptcy law in force before the project's involvement was largely incomplete and did not permit enterprises to undergo liquidation. And this in a situation where a large number of farming enterprises was burdened by heavy debts. The adoption of the amendments concerning the quick liquidation procedure thus brought several enterprises to go through the new simplified procedure and to make their assets available. The project's assistance in establishing standards for land valuation was instead relevant to the purpose of creating a market for land. As a matter of fact, progress in this aspect of land reform had lagged behind. Tacis support thus enabled to reach a better defining of the price for land and agricultural assets. Furthermore it resulted in a project addendum aimed at improving land mortgages in the banking sector.

#### 3.2 Effectiveness

The project was certainly able to achieve a fairly good level of effectiveness. Substantial results in the valuation component were reached. The adoption of the TEGOVA valuation standard was promoted as a way to solve the problem of asset evaluation related to debt restructuring. A first step in raising the awareness of Moldovan operators was the publication and dissemination of a TEGOVA Standards book. Also the project effort in drafting the bankruptcy law was a successful component of the project and the amendments

approved by Parliament were an important result in simplifying the liquidation procedure. The production of a whole series of materials including reviews, reports, articles, manuals, films, guides and publications mostly on topics related to valuation standards, bankruptcy and liquidation was in line with this project objective.

The project component focused on the regional centers set up by the NFFM, especially the mini-project part, seems slightly less effective. One is left with the impression that similar initiatives are necessarily arbitrary and that grant money is a poor substitute for ordinary market mechanisms when it comes to financing business activities. Starting from December 1998, an evaluation panel was set up to assess applications and their selection. The number of projects financed by the project was eventually limited to 30 due to the scarce resources available. The mini-projects were mostly oriented to specific families or groups of farmers to provide them with new information, technology and methods for effective work. Some of the mini-projects were successful, while others failed because of a combination of external factors and internal weaknesses.

### **3.3 Sustainability**

In all likelihood ARA itself will not prove a sustainable institution. It does not have any longer any clear political mandate and their attempts to turn into a high-flying consulting company for the big farming concerns do not seem bound to succeed. However, this depends on original flaws in the agency's design and falls outside the scope of project responsibilities. On the contrary, the project made the clear choice of concentrating in very specific contributions to legislation, standards and human capital formation. Results achieved in these fields seem sustainable even if it is always difficult to assess the ultimate sustainability of training achievements.

A less rosy picture emerges from the regional development component. The regional information centers supported by the project have tried to become commercially viable entities through the sale of services, but given the economic conditions of local farmers they have not managed to become self-sustainable. Reportedly these centers are not working at present. It might be wondered whether similar entities could ever have any chance of surviving without external support for the next decade to come. The commercial initiative financed through the micro grants will prove sustainable to the extent that they will manage to remain in the market.

### **3.4 Impact**

The project produced an impact which is not highly visible but nonetheless important. In the field of asset valuation it has contributed to the adoption of an international standard which will help in the restructuring of indebted farms. This component immediately triggered another small Tacis initiative (€100,000) implemented by the same contractor and aimed at applying the land valuation techniques to the development of the mortgage market in Moldova. The quick liquidation procedure introduced thanks to the project has already borne some fruits and a number of enterprises has undergone the liquidation procedure.

### Assessment by the Monitoring Unit

The project received poor ratings from the Monitoring Unit at the beginning, when the report on the Inception Phase mainly received Ds and Cs. Throughout the monitoring exercise though, reports generally gave a good judgment, with further improvement towards the end. The ratings of the assessment reports were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor).

Monitoring Reports	07/98	10/98	02/99	06/99	09/99
Implementation of activities:	B	B	B	B	A
Achievement of outputs to date:	B	B	B	B	B
Appropriateness of workplan for next 6 months:	B	C	B	C	B
Ability to achieve objectives:	C	B	B	B	A
Potential sustainability:	C	B	B	B	B

## Profile #7

**Support to Public Administration Reform**

<b>Official Title:</b>	Staff Development and Improvements to the Functioning of the Public Administration in Moldova
<b>Reference Number:</b>	EDMOL 9602
<b>Contract Number:</b>	97-0727.00
<b>Location:</b>	Chisinau
<b>Contractor:</b>	PLS Consult (Denmark)
<b>Partner Institution:</b>	Personnel Policy Directorate (PPD)
<b>Start Date:</b>	January 1998
<b>Completion Date:</b>	January 2000 (after 1 month extension)
<b>Budget:</b>	€ 1.75 million
<b>Manpower:</b>	not available

**1. INTRODUCTION**

This project aimed at providing assistance to the reform and streamlining of the Moldovan government machinery. This had been long considered a policy priority for Tacis. In fact, the initiative was preceded by a couple of EES projects aimed at providing suggestions on how to reform the government machinery and assisting in the re-organization of the Department of Civil Service Management, which eventually resulted in the creation of the Personnel Policy Directorate. This project had a very complex nature: it was to streamline the government apparatus and reduce the related burden on the budget, reform the activities of some ministries, and define a strategy for the related training policy. Another component, aimed at strengthening the local governments' capacities, was subsequently dropped and became a stand-alone project included in the subsequent Action Program. The project covered five ministries: Ministry of Agriculture and Food (MAF), Ministry of Economy and Reform (MER), Ministry of Finance (MF), Ministry of Industry (MI), and the Ministry of Privatization (MP), later merged with the Ministry of Economy and Reform. The project's main partner institution, originally envisaged in the State Chancellery, became the Personnel Policy Directorate (PPD), which had been created in 1997 as the central body in charge of coordinating all training provided to civil servants. Included in the 1996/1997 Action Program, the project started in January 1998. Expected to end in December 1999, it obtained a one month extension till January 2000.

## 2. DESCRIPTION

### 2.1 Objectives

The overall objective was defined as “to strengthen the functions of the public administration by developing an institutional framework at the central level”. This was further articulated into the following more specific objectives:

- development of a training policy for the civil service;
- build up of capabilities for the design and implementation of a staff development program;
- design and implementation of the staff development program;
- re-organization of a selected number of ministries.

### 2.2 Activities

Initially, project activities were grouped into six components, namely:

1. Development of training policy,
2. Provision of training to middle management staff,
3. Support to the PPD,
4. Reorganization of “pilot ministries”,
5. PR and awareness increasing activities,
6. Procurement of IT and training equipment.

During project implementation a seventh component was *de facto* added, involving the provision of general advice on streamlining the overall government machinery.

### 2.3 Implementation

**Development of a Training Policy.** The project focused on the assessment of training provision and training needs in the “pilot ministries”. For this purpose, contacts were established with different training institutes such as the Academy of Public Administration and the Academy of Economic Studies as well as with the Agency for Restructuring and Industrial Assistance (ARIA). A report containing a review of training needs and training institutions and the definition of a training strategy was issued in January 1999. It then took till June 1999 for it to be completed, translated and presented to the PPD for its approval. No other activities within this component were carried out.

**Training for Ministry Staff.** A training program (the so called “Management Development Program”) for 50 middle rank civil servants from selected ministries was organized and delivered by project experts. The aim was to develop specific skills related to the functions of the civil servant and general skills such as change management, motivation, team building, IT supported techniques and foreign languages. After all training modules were completed, the program together with its didactic material was officially handed over to the Academy of Public Administration. Study tours were also organized in Scotland for selected personnel of five different ministries (a total 45 participants). Main topics of the courses held were: business planning, staff development and career planning, customer orientated management and human resources. Another study tour took place in Greece after contacts had been established with the Greek Ministry of Internal Affairs. Participants included representatives of various ministries and departments and PPD staff.

**Support to the PPD.** Recommendations for reforming the structure of the PPD were prepared and presented to the Government and approved in April 1999. A special training program for PPD staff and officers in charge of personnel from four pilot ministries was organized in England. It was a ten day exercise aimed at familiarizing participants to the EU civil service management system and modern personnel administration techniques. This training was continued through distance learning in order to achieve the Personnel Practice certificate. A working group of local experts dealing with legal aspects of human resources management was also set up and produced several proposals. To overcome the lack of existing regulations, a draft law on the civil service was elaborated and presented to the Government. This law was subsequently approved and became the reference document for all PPD activities. The team also prepared three variants of the ministerial structure and a regulation of a typical ministry including its objectives, activities and responsibilities.

**Advice on Streamlining the Government Machinery.** When the project started its activities, the Moldovan Government was under pressure from the IFI in general and the IMF in particular, to reduce public expenditure. This had to be achieved also through a streamlining of the government machinery and a reduction of personnel on the public payroll. The project was therefore asked to carry out a quick assessment of the main government restructuring possibilities. The report was presented to the Government and a few suggestions contained herein were accepted. In particular, the Ministry of Privatization was merged with the Ministry of Economy and Reform and the Customs service was incorporated into the Ministry of Finance.

**Reorganization of Pilot Ministries.** In addition to the above advice on administrative reform, the project was also requested to formulate proposals for the re-organization of five “pilot ministries”. While at the “macro level” the advice was given through a top-down approach (with the outside experts providing their advice in a fairly unconstrained way) the re-organization work was based on a bottom-up approach. In each pilot Ministry working groups composed of a deputy minister, the personnel officer, a local expert from the project and other selected personnel were set up. These working groups were to formulate reform proposals and have them translated in a realistic financial framework (the so-called “business plans” to be included in the year 2000 budget). The work progressed very differently within the various ministries. This was made more complicated by the fact that the working teams had also to implement “change projects” with the objective of introducing small changes in the ministries and this sometimes conflicted with the existing hierarchy. In some cases the list of proposed topics received approval from the relevant deputy ministers, in other cases, proposals remained purely the result of the working groups’ internal discussions. By October 1999, the business plans had not been finalized.

**Awareness Raising and Consensus Building.** Activities within this component included the organization of regular briefings and meetings with Ministry and Government staff, the issuing of a newsletter and the use of the media for exposing the project’s progress. At some point even a PR expert was engaged in the project and prepared a working paper for developing a communication strategy for the Government. In spite of these efforts, the project experienced severe difficulties in involving the Ministries’ top management and the political decision-makers in its activities. This situation was only partly redressed through an *ad hoc* initiative aimed at introducing the figure of the *Secretar de Stat* (Permanent Secretary) as a top level civil servant responsible in each Ministry for administrative decisions. This figure was largely unknown in Moldova where all top administrative positions are held by politicians. A fact finding mission to Denmark co-financed by the Danish Fund for

Democracy was thus organized and managed to attract the attention of members of Parliament and other top political figures. The debate prompted by the project even resulted in a draft law.

**Procurement of IT and Educational Equipment.** Computers were installed in every pilot ministry and in the PPD together with a software for setting up a personnel database. This was designed, presented and accepted by the project counterpart. Data entry and verification was implemented coupled with the necessary IT training.

## 2.4 Relations Contractor/Partner Organization

Since the early stages of implementation, the project worked in close collaboration with the partner organization. Indeed, the PPD provided the project team with all necessary office facilities which shared the same building and same floor. After the March 1998 parliamentary elections, the PPD director became an MP and was substituted by his deputy as the key contact person for the PPD. Nevertheless, project activities were not influenced by this change and good relations developed also with the new director. After a second government reshuffling a very tense situation was created between the project and the PPD on one side and the State Chancery on the other one. Even the possibility of stopping all project activities because they were being carried out within the wrong institutional framework was voiced. The situation was then appeased and activities could continue until project completion.

## 2.5 Coordination with Other Activities

As mentioned above, project activities were coordinated with the World Bank and the IMF on the contents of the proposed reforms. On the other hand, there was limited collaboration with another Tacis project, the ARASS initiative within the Ministry of Agriculture, involved in reforming the ministry in line with the strategic developments of the agricultural sector.

# 3. EVALUATION

## 3.1 Relevance

The main contents of project activities were highly relevant at the time when they were conceived and implemented. Moldova was (and to a large extent still is) in bad need to restructure its government machinery and adapt it to the new conditions. On the other hand, the selection of the project counterpart does not seem as particularly appropriate. The PPD seemed to lack the political standing required to carry on such an ambitious agenda. It was and mainly still is a “technical” agency responsible for defining the personnel policy guidelines (job description, required skills, proposed remuneration) rather than a body in charge of policy reform. If the project had less ambitious goals and had limited itself to the human resource component (basically training) then again the PPD would have not been the right counterpart since these initiatives could have been implemented by the Academy of Public Administration.



### 3.2 Effectiveness

The objective of reforming the government machinery was only partially achieved. Some of the recommendations provided by the project team were actually implemented, but the micromanagement of reform within the five “pilot” ministries led to little. For instance, the famous “business plans” were not even completed and were thus not included in the year 2000 budget as had been planned. The decision to adopt a bottom-up approach certainly did not make things easier for the project. The fact that the working groups were composed of ministry officials and not of independent persons meant that bold decisions (like reducing numbers of employees) were difficult to reach. Furthermore, their members were burdened with normal work tasks and this sometimes constituted a problem. As a matter of fact, the more reform-oriented staff involved in the exercise were subsequently boycotted (and in a few reported cases even mobbed) by their colleagues. On the other hand, one must consider that also a “top down approach”, with foreign (or at any rate outside) experts dispensing their advice and trying to force solutions upon insiders would have achieved little.

The project also took an approach excessively focused on technicalities and work relations with Ministry insiders without caring too much about communicating the need for reform to the broader political environment through appropriate communication activities. Only towards the project end the idea of establishing a Permanent Secretary was effectively communicated through a well-attended conference and widely reflected in the media and in the political debate.

The main achievements relate to activities directly focused on the PPD. Recommendations elaborated by project experts led to a change in the organizational setting and the department was given a clearer legal framework and policy responsibilities. Staff capabilities were also adequately enhanced through the various training activities.

### 3.3 Sustainability

The sustainability of results achieved with the PPD largely depend on the fate of this organization, which according to some indications is supposed to be merged with the State Chancellery. The database on personnel is a potentially powerful tool and could help in improving the overall management of human resources within the public administration. But the PPD does not have in-house capabilities to upgrade the existing version and the financial resources required to do the job may not be available [in the year 2000 budget, 80,000 lei (US\$ 7,000) have been earmarked for maintenance and upgrading, but it is not sure whether the sum will be really received]. As for the training activities, the transfer to the Academy of Public Administration of the training modules developed under the project should in principle guarantee sustainability. However, the Academy was not involved in project implementation, and it is not clear whether they would actually make use of the training courses and/or whether the project participants will be eventually associated to delivery of courses in the future.

### 3.4 Impact

Apart from the merger of the Ministry of Privatization into the Ministry of Economy, the project did not have any significant impact on the streamlining of government machinery, a fate shared by all other donor-sponsored initiatives in the area. As a matter of fact, the number of civil servants has reportedly increased rather than declined. Some impact could be expected on the change of mentality of those involved in project activities, but this is hard to gauge, let alone measure. The pending political crisis makes the fate of many legislative reforms uncertain.

#### Assessment by the Monitoring Unit

The project received progressively decreasing ratings from the Tacis Monitoring Unit. Throughout the monitoring exercise the appropriateness of the work plan together with potential sustainability received the lowest ratings. The ratings in the monitoring reports were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor).

Monitoring Reports	08/98	01/99	05/99	06/99	10/99
Implementation of activities:	B	B	B	B	C
Achievement of outputs to date:	B	B	C	B	C
Appropriateness of work plan for next 6 months:	C	C	C	C	E
Ability to achieve objectives:	B	B	D	C	C
Potential sustainability:	C	C	C	C	C

## Profile #8

**Support for Reform of the Health Sector in Moldova**

<b>Official Title:</b>	Support to Primary Health Care Development and Health Management Strengthening
<b>Reference Number:</b>	EDMOL9501
<b>Contract Number:</b>	MO95.96-5220
<b>Location:</b>	Chisinau
<b>Contractor:</b>	SwedeHealth AB (Sweden)
<b>Partner Institution:</b>	Ministry of Health
<b>Start Date:</b>	September 1996
<b>Completion Date:</b>	September 1997
<b>Budget:</b>	€ 427,000 + € 32,000
<b>Manpower:</b>	not available

## 1. INTRODUCTION

This project was part of the 1995 Action Program which identified the system of social services as a priority for reform and also included the reform of the Moldovan social security system. Before this Tacis initiative, Moldovan authorities had developed a new model of health protection in order to respond to the difficult budget situation.<sup>6</sup> This new system's main features included (a) decentralization of the health care system and introduction of the family doctor; (b) development of private medicine and creation of a medical insurance system to complement budgetary resources; (c) rational use of resources and agreement on a basic package of free services. Pilot experiences in medical insurance and a general practitioner system were in course. Tacis participated at this stage and produced a report evaluating health assistance (Health Sector Reform in the Republic of Moldova, Final Report, 1995-1996). However, its policy recommendations were not implemented due to lack of expertise in management and planning. As a consequence, the Ministry of Health asked for specific technical assistance in primary health care (PHC) and health management strengthening. Project implementation started in September 1996 and ended in September 1997 as planned.

## 2. DESCRIPTION

### 2.1 Objectives

The general objective was to assist the Ministry of Health in developing primary health and strengthen its health management capacity. The project was divided in two sub-programs: Primary Health Care Development and Health Management Strengthening. Each sub-program was to be undertaken in two phases lasting 6 months for a total project duration of 12 months. The specific objectives of each component, as stated in the TOR, were as follows:

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<sup>6</sup> In June 1993 a special reform commission reached consensus among concerned parties (politicians, health professionals and social organisations) and subsequently a Law on Health Protection was adopted by the Parliament.

1. Primary Health Care Development (PHCD)

- establish and provide support to a PHC Development Task Force (PCDTF) composed of key professionals and other stakeholders
- develop family practitioner-oriented medicine as a separate, professionally recognized medical specialty and raise the status of professionals working in primary care
- consider the necessary legislative changes to enable primary care doctors to operate as family practitioners
- consider what funding arrangements are desirable to create positive incentives for more preventative care and a stronger gate-keeping role at the primary care level
- reconsider the role and tasks of non-medical staff in ambulatory care clinics and the relative training needs
- determine undergraduate and postgraduate training needs in primary health practice
- consider the publicity of the PCDTF strategy and encourage debate on PHC improvement in Moldova
- organize seminars and study tours for PCDTF members

2. Health Management Strengthening (HMS)

- establish a Health Management Strengthening Task Force (HMSTF)
- develop a strategy document covering management development and organizational development issues, including: i) a needs assessment with possible options in terms of organizational development of the Ministry of Health at central and local level, ii) a detailed analysis of current and future competencies required by senior management in the new health insurance competitive environment and training needs and iii) identification of the legislative changes to grant senior health managers greater autonomy and additional decision-making powers
- identify a suitable in-country institution for management training
- organize a small number of study tours to EU countries in order to assist in the development of a strategic plan
- identify the specific issues at medium term (3 – 5 years)
- improve ability of selected health managers through competency based training

This mandate was considered by the partner organization too vague. The perceived risk was that the initiative would turn into another theoretical policy advice exercise with little management content. Therefore in the inception phase, objectives were revised and more tightly targeted: the project partner expressed a “clear view on which concrete outputs could be expected” which was backed by the contractor. The latter, while justifying the wide approach of the TOR “as neither health care development nor health management strengthening can be seen as merely technical topics [but] must be developed within a broad health policy frame”, agreed that there was a “need for a clearly action-oriented approach” and that the project should restrict itself “to some main areas, realistic to cover within the time and resources available”. The parties thus agreed to re-define the objectives, taking into account relations with other programs in the pipeline in Moldova, above all by the World Bank and the World Health Organization (WHO). The main feature of the new approach was to narrow HMS to PHC. Project objectives were thus reformulated as follows:

1. Primary Health Care Development:

- define tasks of PHC
- develop skills of Family Doctors (FD)
- create PHC team
- develop relationship FD – other specialists
- introduce principles of payment system

- determine training needs of FD

## 2. Health Management Strengthening:

- strengthen management of PHC activities
- strengthen management of regional services to co-ordinate and enhance PHC
- strengthen management of relationship PHC-hospital services
- strengthen management at central level to support PHC development
- determine needs for health management training

## **2.2 Activities**

Primary Health Care Development. The PHC Development Task Force (PCDTF) composed of key professional and other stakeholders in the primary health care field, was established as an attempt at fostering broader policy dialogue. Tacis technical assistance to the task force included the following tasks: (i) gather, interpret and analyze information relevant to the objectives; (ii) conduct in-country seminars on relevant issues; (iii) organize study visits for selected members; (iv) prepare strategy documents; (v) assess present capacities and training needs; (vi) assist in training and revising curricula; and (vii) prepare an action plan for further development of PHC.

Health Management Strengthening. The Health Management Strengthening Task Force (HMSTF) instead, was appointed by the Ministry of Health and comprised representatives of key interest groups, including the Ministry of Health (the local coordinator); the Ministry of Education; medical associations; the National Health Insurance Company; other organizations recommended by the Ministry of Health; and the EU Tacis lead health management consultant. The task force was intended to become the national focus for strategic planning in health management strengthening and an advisory group for the Ministry of Health on health management issues.

Technical assistance tasks included: (i) facilitate the process of consensus building and setting priorities; (ii) conduct in-country seminars, organize study tours and help collect materials; (iii) prepare action plans for the development of management training and for organizational changes; (iv) provide aspects of MD training in a number of key management competencies for a selected group of senior health managers.

The main outputs expected were listed as follows in the Inception Report:

- a 3-5 year action plan for PHCD
- a report on training needs for FD
- a 3-5 year action plan for HMS
- a revised university curricula on PHC for undergraduates and postgraduates

## **2.3 Implementation**

Implementation was somewhat delayed due to government reshuffling and the heavy work load at the ministry. The lack of any realistic finance to implement whatever proposed reform was not a big incentive to take part in project activities. Initial attendance at task force meetings was around 50%, and members were reluctant to contribute concretely. In order to speed up implementation and encourage participation, members of the task forces were requested to present short papers on specific topics. These members were later recruited as

local experts for specific tasks and directly paid by the project. Later, the two task forces merged and in the last phase of the project the work was divided among different issues and assigned to smaller groups.

Subsequently implementation proceeded on course and all outputs were delivered on time. The project implementation approach, as described in the inception report, was bottom up, based on wide-ranging discussions and information sharing during task force meetings. Changes were carried out gradually and local forces empowered through efforts to “build consensus and link consensus to implementation”. Field visits were linked to theoretical work to ensure realistic proposals. Pilot experiences were analyzed and coordination sought with other programs and this was primarily achieved with the World Bank and WHO, although with some difficulties at least in the initial stages. At the end of the first phase, the strategic plans for both PHCD and HMS, along with the reports on training needs, were delivered. According to the second Monitoring Report, the two strategic plans merely described what was to be done and not “how the reform should be implemented, neither in terms of sequence of steps to be undertaken nor in term of responsibilities or role of the main players in the field”.

During the second phase of the project, short term consultants contributed in health economics, community nursing programs, MIS and health legislation. Task force members' contributions were also delivered on various subjects (i.e. roles and activities of the PHC team, referral system, monitoring and evaluation of PHC, substitution of hospital services, manpower and training, budgeting and legislative framework). Two seminars were held to disseminate and obtain reactions on relevant proposals (“Role and functions of the PHC team” and “Management of regional services to support primary care development”). Three study tours in France (primary health care training), Greece (health management) and Sweden (primary health care strategy) were organized.

As a result, the action plan delivered at the end of the project answered “all the questions (How? When? By whom? Costs/Times?)” and was considered by the Moldovan counterpart “the first step toward the general health reform in Moldova”. The Moldovan part particularly appreciated that the contractor “proposed several strategic possibilities for the PHC Reform from which the Moldovan side can choose the most appropriate modus operandi”.

## **2.4 Relations Contractor/Partner Organization**

All parties involved acknowledged the good relations between the contractor and the project partner. Both the contractor's Completion Report and the End of Project Assessment Report pointed out excellent cooperation, mutual understanding and appreciation. This impression has been confirmed by the mission's interviews.

## **2.5 Co-ordination with other initiatives**

Coordination with other donors was a complex issue. As the contractor acknowledges in its reports: “contacts and coordination with other projects and programs have formed an essential part of the work”, even if it was “difficult to get cooperation as operational as

desirable in spite of excellent personal contacts”. The success of the Tacis project was considered indispensable to the other main donors involved in health care reform.

The World Health Organization has an active advisory role in the overall process of transition in Eastern Europe. It was therefore agreed that it would have a consultative role in the project. For example, based on mutual agreement, the WHO undertook preparation of the terms of reference for nurses while Tacis prepared the same for physicians. Training was to be revised jointly and WHO would support health care management development at the institutional level.

The key relation with the World Bank was a bit more difficult. The Bank was involved in a project called “Support to Health Sector Reform” whose preliminary activities were due to start in 1997. This project included the definition of a package of basic services, the development of a provider payment system and institution-building for policy planning and decision making for the rationalization of expenditures (health financing and resource allocation). Coordination with the Tacis project had been explicitly requested in the TOR, but it was not possible for the contractor to know the intentions of the Bank in advance. When contacts were finally established, a “division of labor” was worked out: Tacis was to elaborate the requests and desiderata on remuneration of family doctors while the WB was to bring them into harmony with the comprehensive financial system. Tacis managed to avoid clashes with the Bank by elaborating different policy scenarios that could function under different financial frameworks: both in a health insurance system and in a tax-financed system.

Co-operation with UNICEF consisted of a consultative role for those programs that could be incorporated into action plans and concentrated on the issue of drug policy for primary health care and perinatal care.

### 3. EVALUATION

#### 3.1 Relevance

The health reform issue was in principle certainly deemed relevant to the country needs by both the Government and the donor community. There even was a broad consensus on the main directions of general health policy reform and priorities to be tackled. However, the Moldovan Government did not have the financing to implement any reform on its own and was mainly seeking for sources of external financial assistance. If this had not been in sight, political interest in the subject would have been likely to subside. Under this respect the prospect of the World Bank’s involvement was able to revive some interest in the counterpart that finally appeared committed to the project’s objectives and capable of providing a valuable contribution. World Bank involvement subsequently became a key point. The three partners (Ministry, Tacis and the Bank) finally found a *modus vivendi* on the allocation of tasks and on the pace and possible contents of reform and even if the WB eventually rallied in favor of a more gradually phased-out program, the efforts of all major actors complemented each other well in this preparatory phase.

### **3.2 Effectiveness**

Technically speaking, the project's approach proved to be effective. Indeed, all its intended outputs were achieved. The action plan was approved and endorsed by the Government. Ministry staff and task force members were actively involved in the process and consensus building was facilitated even though it took unusual incentives (hiring them as short term experts) to obtain a concrete and effective contribution. The sort of approach required considerable time, but this was necessary to ensure ownership. The results achieved however, remained shared among the small group of insiders involved and the wider political consensus needed to implement the reform was not reached by the project. Even the contractor admitted that "the indirect target groups have been more difficult to reach". Two seminars were not enough to promote a reform which includes very sensitive issues. A follow-up communication program to assist in implementation and social impact issues should have been envisaged. However, such a program could have been carried out only after the reform's design and official approval.

### **3.3 Sustainability**

As far as the Action Plan prepared by the project has been adopted by the Government and is the document of reference for the activities of follow-up programs, the project is sustainable. Capacity building inside the Ministry is also sustainable as long as the staff who worked on the project will continue to work in the public health system and can bring to bear the skills and approach obtained during the project (and some key staff at that time already reportedly left).

### **3.4 Impact**

According to ministry sources the "minimum free package" system already allowed a savings of 8 million lei. Fifty percent of family doctors have been trained (even if 20% of Moldova's territory is not yet covered by PHC) and doctors are implementing the M&E system. But the shift of funds from hospitals to PHC is progressing very slowly. PHC is still under-funded, and medical doctors continue to abandon their profession to earn their living in other ways.

A broader impact of the Action Plan depends on the availability of financial resources and on the political will in Parliament to introduce some changes in legislation that would affect vested interests. The recently-approved World Bank loan on the health reform system represents a starting point, but continued financial and political donor support is necessary to win resistances to reducing hospitals and beds, and the lack of drugs and equipment. According to the UNICEF, a pilot project experience for the new PHC system highlighted a series of bottlenecks and constraints to implementation such as the under-developed legal framework and the fact that the basic health care package devised is still too expensive for actual financial conditions.

The impact of the project on the ministry's staff depended on the level of exposure and involvement in project's activities. According to ministry staff, the main results were a better understanding of public health issues and a new prevention-oriented approach. A new



tradition of policy dialogue was also created. The impression is that there is widespread understanding and agreement on the necessity and content of the reform among responsible health managers, but this does not necessarily extend to the health system in general or to Parliament. Some sectors within the health system are very conservative, which is not surprising considering that the reform puts at risk the interests of many medical professionals, ranging from privileged to lower level staff. The major critical issues are hospital restructuring and the re-deployment of doctors. These problems are typical and can be found in any other country. Yet the solutions, usually based on incentives and social impact alleviation measures, are difficult to implement in Moldova due to very low salaries which are often delayed for months, an inadequate drugs supply, insufficient local (and national) resources to fund even the basic package of health services, and widespread and growing poverty, especially in rural areas.

### Assessment by the Monitoring Unit

The project received poor ratings from the Tacis Monitoring Unit throughout the monitoring exercise. A slight improvement was registered only with the end of project assignment report. The ratings of the assessment reports were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor).

<b>Monitoring Report</b>	<b>04/97</b>	<b>11/97</b>
Implementation of activities/ Overall performance:	D	C
Achievement of outputs to date:	D	C
Appropriateness of work plan for next 6 months:	C	n.a.
Ability to achieve objectives:	D	C
Potential sustainability:	C	C
Achievement of specific objectives:	C	C

## Profile #9

**Support to Social Security Reform**

<b>Official Title:</b>	Reform of the Moldovan Social Security System with a Particular Attention to the Pension System
<b>Reference Number:</b>	EDMOL 9502
<b>Contract Number:</b>	96-5248.00
<b>Location:</b>	Chisinau
<b>Contractor:</b>	Planet S.A.
<b>Partner Institution:</b>	Ministry of Labor, Social Protection and Family
<b>Start Date:</b>	September 1996
<b>Completion Date:</b>	June 1999 (after 15 months extension)
<b>Budget:</b>	€ 1.5million (including € 0.2 million for two extensions)
<b>Manpower:</b>	not available

## 1. INTRODUCTION

The project was part of the 1995 Action Program, which identified the reform of the welfare system as a priority for Tacis assistance in public administration and human resources development. Due to the disruption of the former soviet mechanism of social protection and the severe economic crisis brought about by transition, it was considered of paramount importance to develop a sustainable and efficient social protection system to alleviate the most serious social impacts of this process: widespread and growing poverty and worsening living conditions in particular for the more vulnerable layers of the population, i.e. children, the rural poor, the households of unemployed people. The project focused on providing assistance for the reform of the pension system. The partner institution was the Ministry of Labor, Social Protection and Family (MLSPF). Implementation of the project started in September 1996 and ended in June 1999 after two extensions.

## 2. DESCRIPTION

### 2.1 Objectives

The general objective of the project was to assist the MLSPF in developing a new social protection system that would (i) be financially sustainable during the transition towards a market economy; (ii) optimize the use of limited fiscal resources to ensure adequate minimum standards of social provision and (iii) prepare for an improved future social protection once the economy would recover.

Specific objectives were more focused on the pension system, namely:

- reorganization of the overall operations and improvement of management within the Social Fund (mainly regarding fund collection at district level) and departments of the MLSPF involved in the pension sector (both at district and central levels)
- implementation of the new pension scheme (including transition measures) within pilot projects, including adequate training for personnel of the MLSPF and its departments
- development of measures to allow beneficiaries, mainly pensioners, to maintain an acceptable living standard during the transition period.

## 2.2 Activities

Project activities as envisaged in the TOR were divided into three main phases:

- **The inception phase**, including a preliminary assessment of the strengths and weaknesses of the existing social protection system and the validation of the selected priority areas for reform, namely (i) the overall structure of social protection with specific attention to the pension system, (ii) the overall management structure of the social protection system, (iii) the decentralized management structure and (iv) the improved information system.
- **The policy advice phase**, inclusive of the design of a new integrated social protection system taking into consideration the limited financial resources of the country and the need for a minimal level of social protection for all social layers. Policy advice also included assistance to the development of social dialogue and the identification and/or development of social indicators.
- **The implementation and pilot phase**, comprising the establishment of an adequate legal framework and pilot environments at the local level (within the two selected *raion*). This phase included (i) the development of a draft legal framework for social protection, (ii) the organization of workshops and seminars for the three social partners, (iii) the testing of adequate methodologies (structured analysis and programming) software and equipment for the new payment and registration system, (iv) the testing of social indicators, (v) staff training and (vi) a wide-scale communication program.

The project's expected outputs were:

- a draft legal framework of the new social protection system, subsequently limited to the pension sector only;
- pilot decentralized structures for the management and daily operations of the pension system;
- relevant methodologies, database, software and equipment to support pilot operations
- a defined, implemented and tested set of social indicators, comprehensive of relevant minimum standard of living and monitoring procedures and methodologies
- the setting up of a framework for social dialogue on these issues between trade unions and employers' associations;
- training programs and modules for trainers and a small number of trained trainers;
- on the job training and re-training program for the Ministry's personnel;
- reference manuals and other documentation;
- tested information tools and materials for the information campaign;

## 2.3 Implementation

Project implementation started in a climate of political stalemate with little interest from counterparts. During the inception phase, strengths and weaknesses of the existing social protection system were assessed and priority areas for reform were selected. The real implementation phase started in January 1997 when the new Government was being created. Working groups for each main component, composed of key actors from the Government, ministries, employers' associations, trade unions and local authorities, were established. The activities carried out can be summarized as follows:

- **Legal framework.** Project experts were involved in the preparation of a new pension reform strategy for the Government comprehensive of a new law on pension reform. After many revisions and several rejections from the Parliament, this law eventually came into force in January 1999. Furthermore, the project assisted in the creation of a new organizational structure within the MLSPF, which was turned into law in June 1999. The project had an important role in the preparation of the various drafts, which were however also very much influenced by WB indications in connection with the conditions set by the Second Structural Adjustment Loan (SAL II);
- **Pilot projects.** This project component was fraught with severe problems. First, there were delays in the approval of the relevant laws and administrative changes. Secondly, the project experienced delays in the supply of equipment. Therefore, the only very limited results achieved were the definition of the methodology and the installation of equipment in the pilot structures. Furthermore, the reasons for the selection of the two pilots (Chisinau and Drochia, subsequently replaced by Anenii Noi) are not totally clear. In fact, it seems that this decision had already been taken by the MLSPF even before the arrival of the contractor and without any involvement of Tacis experts;
- **Reorganization of the MLSPF.** A major project contribution within this component was the already mentioned law on the reorganization of the MLSPF. Moreover, an Actuarial Unit within the Ministry was designed, organized and equipped and its staff selected and trained.
- **Social protection policy.** The project assisted the MLSPF in the development of its social protection policy. Specific recommendations on the definition of an anti-poverty strategy were provided. A working group with local experts and EU specialists elaborated indicators of social policy and recommended operational methods for monitoring the social protection system's performance.
- **Social dialogue.** This component aimed at bringing together trade unions, the MLSPF and employers in order to build consensus and facilitate the introduction of the pension system. Study tours and workshops for both employers' associations and trade unions were organized. Moreover, support was given to the National Tripartite Commission for the review of the legal framework on social dialogue.
- **Training and IT equipment provision.** Training activities were implemented at local and central level (including two study visits with a total of 29 officials and 16 trainers trained). A modern training center inside the ministry was fully equipped. IT equipment was procured for the Computer Center within the MLSPF and the pilot units.

- **Emergency pilot projects.** This component was added as an urgent answer to requests from the beneficiary. These pilot projects aimed at tackling the most urgent needs of vulnerable population. As a first step, two field workers were appointed in order to carry out an analysis of needs and identify viable projects. Seventeen projects in different districts were eventually funded for the distribution of free meals to pensioners, children in need and mothers with children. Canteens were organized in schools and churches. Delays in the availability of funds prevented the implementation of the last six projects.

The project experienced delays and distortions due to several factors:

- the Government's engagement in meeting the conditions imposed by the WB's SAL II, some of which requested urgent and radical policy measures concerning the pension system (particularly a new law on pensions, including among other important issues the immediate raising of the pension age);
- major political events such as the presidential election, parliamentary elections and the adoption of a new administrative and territorial set up;
- reshuffling and other administrative difficulties experienced by the partner organization, with subsequent delays in decision-making within the MLSPF and, subsequently, at parliamentary level;
- difficulties experienced by the contractor in supplying the necessary expertise on time (mainly for short term consultants) and in tendering for equipment.

Because of these delays, the project received an initial extension of 11 months followed by two other extensions of two months each.

## 2.4 Relations Contractor/Partner Organization

Problems of insufficient communication between the two parts did emerge. The contractor often failed to inform in due time the MLSPF about decisions concerning project implementation. The World Bank asking for completely different reforms from those proposed by Tacis created further confusion and misunderstandings with the partner organization. In November 1997 the monitors mentioned the fact that "the perception of and the views on the project activities was different with the Contractor, the project Partner and the other actors involved in the project". In February 1998 the monitors reiterated the "persistent difficulty to agree on the project objectives with different and even divergent requirements and positions of several components: Ministry (...), local technical staff, EU experts, Contractor (...) they did not find an effective and operative synthesis of the different points of view". Communication somewhat improved temporarily when the expatriate team leader was replaced by the local project manager (April 1998). But later on, even the local project manager complained about poor collaboration with the Ministry's staff, which often blocked the smooth flow of information. The language factor also played a role, as only one of the main counterparts could speak English.

## 2.5 Coordination with Other Initiatives

Coordination with the World Bank in drafting the law on pension reform was finally achieved, but some divergences on this issue did emerge<sup>7</sup>. It should be noted that the WB's intervention had not been taken sufficiently into account during project identification, though the 1995 Action Program mentioned the SAL II in reference to "some measures to be taken in the social protection sector (mainly on pensions)". Since WB requests to the Government were a conditionality (among others) for the disbursement of SAL II money, obviously they had a much stronger political weight and Tacis intervention risked to be marginalized. The only option left for the project was to provide assistance in the preparation of what the WB requested, an acceptable compromise if this collaboration had been negotiated and agreed upon in advance. But this required time to be achieved. Initially Tacis and the WB simply did not share the same approach and the same view on the reform and its pace. For example, the Tacis first draft of the pension law was regarded as totally unsatisfactory by the WB, that eventually had it revised. ("we didn't think the advice regarding pension policy reforms was appropriate, and we did insist on quite radical changes to the legislation before we could continue with our lending program", WB Task Manager).

This situation negatively influenced (i) relations with the Ministry ("World Bank and Tacis efforts should have had to be combined"), (ii) project implementation in general, since "co-operation with the World Bank intervention caused regular adjustments in the working schedule" and (iii) project's impact, because some of Tacis results were considered insufficient and/or not relevant for the continuation of WB support to the Ministry.

The project also considered participating in the preparation of the Anti-Poverty Strategy promoted by the Ministry of Economy and Reform and again involving the WB (that carried out a Poverty Assessment) as well as the UNDP. During the inception phase, contacts with NGOs active in the social assistance field were established, but apparently no real collaboration ensued. A joint initiative with the Tacis Health Reform Project was also envisaged, but not implemented.

## 3. EVALUATION

### 3.1 Relevance

The project's objectives were highly relevant and timely considering the necessity of reforming the pension system. The pension system was experiencing a severe crisis and this was manifested by problems in pension and contribution arrears. Indeed, pension payments had reached up to seven or eight months in arrears. Moreover, there was a growing financial unbalance in the system, and this even without taking into account the contributions lost because of the gray economy. However to be of use Tacis efforts should have been coordinated since the beginning with the World Bank's policy indications on this matter. This would have avoided a number of subsequent implementation problems and ensured a higher relevance to Tacis initiatives.

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<sup>7</sup> The difference of views on social protection reform did not exist only between Tacis and the World Bank, but also with the UNDP, as made clear in UNDP document "National Poverty Alleviation Strategy for the Republic of Moldova" (1997).

### **3.2 Effectiveness**

The law on pension reform was eventually drafted and approved by Parliament, but practically under dictation from the World Bank with Tacis contributing only to technicalities and on the marginal aspects. The reorganization of operations and improvement of management within the Social Fund and departments of the MLSPF involved in the pension sector was carried out only partly. The major result in this direction was the elaboration and approval of the law on the new structure of the MLSPF. The basis of the information system was also laid down: equipment and training in statistic monitoring were supplied and the information flow to central departments was better organized. Management improvement was carried out through training sessions for MLSPF staff. Nevertheless, training had a greater impact on central departments rather than local ones because local staff was less exposed to project activities.

The objective of implementing the new pension scheme within pilot projects was not achieved at all. The project was able to assist in the drafting of the new law on pension reform but not in developing pilot units at the national and local level to promote the new system. The only result was the (delayed) installment of IT equipment in the pilot structures and the definition of the methodology. Project input thus remained largely theoretical, with insufficient concrete testing and application.

No results were also obtained in developing “measures” to allow pension beneficiaries to maintain an acceptable living standard during the transition period. This actually turned in the delivery of humanitarian assistance at the local level, a temporary form of assistance answering urgent needs and focused on a specific part of the population.

### **3.3 Sustainability**

Beneficiaries have indeed been exposed to a new approach and new perspectives of social protection contributing to a change in attitude and mentality. Yet, the project’s sustainability is very much linked to how much this change has taken root. It should therefore be measured on the basis of the capacity of the Ministry staff to continue the identification and implementation of necessary reform measures. Nevertheless, a major impediment to project sustainability is due to the fact that the methodological and technical tools supplied were not sufficiently applied during implementation and did not benefit of the support of technical assistants. It thus seems that they will be useful and sustainable only with further assistance from donors.

### **3.4 Impact**

It is too early to assess the impact of the World Bank engineered pension reform Tacis contributed to. The WB is indeed currently continuing the reform process within the MLSPF through the Social Protection Management (SPM) project. Main components of the SPM project include social policy monitoring and evaluation; administration and IT; public communication. According to WB staff, while designing the IT/administration component of the SPM, they considered using Tacis pilot experience, “however, the delay in implementation of the Tacis pilots, made it impossible to incorporate them into the SPM



project”. While preparing the SPM, the MLSPF’s capacity in communication was evaluated, but “it was not clear whether Tacis assistance in this area had left a major impact. Therefore, the design of the communication component in SPM was done from scratch.”

Some modest impact was possibly reached in the Ministry’s policymaking process. Capacity building, especially on-the-job working experience contributed to some changes in attitudes and mentality. MLSPF staff has emphasized that Tacis project was the first one to present a new vision and methodology regarding social protection and that the presence of foreign specialists helped in defending reform measures against more conservative sectors. This change in attitude was also acknowledged by the monitors. “if in the past they [Moldovan authorities] needed only one way of resolution of the problems, now they consider the possible alternatives and look at their advantages and disadvantages”. Another minor impact concerned the development of social dialogue. This was furthered mainly through study tours abroad and workshops and apparently gave new perspectives to key actors such as the ministry, trade unions and employers’ associations. Indeed, the latter realized the need to work together and solve conflicts. In particular, trade unions were exposed to a new role, not only that of disseminating Government decisions, but that of negotiating decisions with the Government.

#### Assessment by the Monitoring Unit

The project received average-to-low ratings from the Tacis Monitoring Unit both in the end of project assessment report and in the various monitoring reports. The ratings of the assessment reports were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor).

Monitoring Reports	11/97	02/98	03/98	08/98	01/99	03/99 End of project assessment
Implementation of activities/ Overall performance:	C	D	C	C	C	D
Achievement of outputs to date:	C	C	D	D	D	D
Appropriateness of work plan for next 6 months:	C	C	C	C	C	n.a.
Ability to achieve objectives:	D	D	C	C	D	C
Potential sustainability:	C	C	C	C	D	C