ANNEX 01

of the Commission Implementing Decision on the Special measure 2014 in favour of Georgia and the Republic of Moldova

Action Document for the "Support to the implementation of DCFTA process in Moldova"

1. IDENTIFICATION

Title/Number	Support to the implementation of DCFTA process in Moldova CRIS number: ENI/2014/034-132		
Total cost	Total estimated cost: EUR 30.075 million Total amount of EU budget contribution is EUR 30 million (allocated through the multi-country umbrella programme), of which – EUR 25 million for budget support – EUR 5 million for complementary support Estimated co-financing by potential grant beneficiaries: EUR 0.075 million		
Budget support			
Aid method / Management mode and type of financing	Direct management Sector Reform Contract (SRC)		
Type of aid code	A02 – Sector Budget Support	Markers	BSAR
DAC-code	33110	Sector	Trade policy and administrative management
Complementary support			
Aid method / Management mode and type of financing	Direct management – grants – call for proposal Direct management – procurement of services		
DAC-code	33110	Sector	Trade policy and administrative management

2. RATIONALE AND COUNTRY CONTEXT

2.1. Summary of the action and its objectives

The overall objective of this Sector Reform Contract and complementary support is to assist the Government of Moldova in promoting sustainable and inclusive growth, and consolidating and improving democratic and economic governance.

The specific objective is to support to the implementation of DCFTA process in Moldova in the following areas: a) quality infrastructure including metrology, standardisation and conformity assessment, b) market surveillance and enforcement, c) internal and external market conditions and opportunities and d) competitiveness/DCFTA awareness.

Expected results of this action are anticipated to be: 1) increased competitiveness of the Moldovan economy both on competitiveness infrastructure (quality and market surveillance) and internal and external market (SME and exports/investment) level; 2) improved awareness of the benefits posed by the Association Agreement (AA) in general and DCFTA in particular for Moldovan stakeholders (specific economic stakeholders as well as public in general).

Funding for this action is granted to the Republic of Moldova through the 'more for more' mechanism of the European Neighbourhood Instrument (multi-country umbrella programme).

2.2. Country context

2.2.1. Main challenges towards poverty reduction/inclusive and sustainable growth

Poverty in Moldova is a crucial socio-economic development aspect that is the running thread of action in the 2012-2020 National Development Strategy (NDS). Moldova’s economic recovery since 2000 has reduced income poverty, though poverty reduction, especially in the rural areas, has recently stalled. Moldova is characterised by volatile economic growth and high levels of social exclusion and income disparities. The country’s GDP per capita increased from US$ 950[1] in 2006 to US$ 2,200[2] in 2012, placing the country among the poorest one in Europe. The proportion of the population living in poverty has decreased from 30.2 % to 16.6 % between 2006 and 2012. There are large and persistent region and urban/rural disparities in Moldova, particular in relation to access to education, health care, clean water or central heating. Non-urban areas in Moldova are characterized by lower incomes and poverty in non-urban rural areas was 12.9 percentage points higher than in the urban areas. Moldova is ranked 113 in the 2012 Human Development Index[3].

Significant improvements were made in easing conditions for the business environment in Moldova. Moldova has undergone a number of regulatory reforms in the last 5 years, and its ranking has advanced from place 86 in 2013 to place 78 in 2014 (out of 185 countries) in World Bank's Doing Business, with major improvements in starting business, access to financing and taxation[4]. Corruption though remained a main obstacle to development. The World Economic Forum’s Global Competitiveness index placed Moldova 89th among 148 countries, stressing corruption and political instability among the top obstacles for doing business in the country. Poor state of road infrastructure (148th place out of 148), low independence of judiciary and inability of the country to retain talent (both at 145th place out of 148) are amongst factors that need improvement.

[1] World Bank, World Development Report (2014)
[2] IMF, World Economic Outlook, (October 2013)
[3] https://data.undp.org/dataset/Table-1-Human-Development-Index-and-its-components/wxub-qc5k
[4] http://www.doingbusiness.org/data/exploreeconomies/moldova

The growth was driven mainly by domestic consumption fuelled by remittances. The key challenge in the foreseeable future is to shift from the current consumption-based growth model towards one based on raising investments, increasing productivity and competitiveness, developing export industries, and promoting a knowledge-based society. The achievement of the development objectives set in NDS will require macroeconomic stability and timely implementation of structural and systemic reforms. This programme complements the public finance policy and public finance management reforms to provide macroeconomic stability.

2.2.2. Fundamental values

The Moldovan Government has adhered to the fundamental values of democracy, rule of law and human rights.

According to Amnesty International (2012), the Government has made significant progress in bringing legislation and practice in line with European and international human rights standards, but it still faces significant challenges in combating discrimination[5]. As per the latest report (2013) of the European Commission against Racism and Intolerance (ECRI), by adopting several action plans, the authorities have demonstrated their willingness to undertake major reforms, which would make it possible to combat racism and racial discrimination more effectively. These plans concern inter alia the honouring of Moldova's commitments to the Council of Europe and the European Union[6]. The report of Freedom House (2014) reported that Moldova has a freedom status of "partially free". However, the scores for political rights and civil liberties are "3", which is the closest score to the "free" status[7]. The Law "On guaranteeing equality" No 121 was adopted on 25th May 2012[8]. The law provides for the establishment of a specialised body to combat racism and racial discrimination – the *Council to Prevent and Combat Discrimination and Ensure Equality*.

The issues of concern raised by ECRI and still to be addressed by the authorities include: (i) non ratification of Protocol No. 12 to the European Convention on Human Rights; (ii) cases of non-registration of ethnic minorities by municipalities; (iii) cases of police reluctance to register complaints of racism and racial discrimination; (iv) non-use of their power by Parliamentary Advocates to apply to a court to protect the interests of alleged victims of discrimination.

The 5th report on the implementation of the Visa Liberalisation Action Plan (VLAP), adopted in November 2013 by the European Commission, concluded that Moldova meets all the benchmarks set in the four blocks of the second phase showing positive progresses on data protection and human rights matters.

According to the most recent Human Rights Watch report of 2011 corruption remains a major drawback in guaranteeing protection of human rights and the anticorruption legislation needs to be broadened[9]. In the latest reports of Transparency International (2013), the corruption perception index is 35, ranking Moldova 102nd in 2013 out of 177 countries, dropping from 89th place four years earlier[10].

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[5] Towards Equality, Discrimination in Moldova, Amnesty International, 2012
[6] ECRI report on the Republic of Moldova (fourth monitoring cycle), October 2013
[7] Freedom House, Freedom in the world 2014:
http://www.freedomhouse.org/sites/default/files/Freedom%20in%20the%20World%202014%20Booklet.pdf
[8] http://lex.justice.md/viewdoc.php?action=view&view=doc&id=343361&lang=1
[9] http://www.hrw.org/news/2011/10/21/moldova-broaden-anti-discrimination-bill
[10] http://www.transparency.org/cpi2013/results

2.3. Eligibility for budget support

2.3.1. Public policy

Moldova initialled the Association Agreement - including a Deep and Comprehensive Free Trade Agreement (DCFTA) - with the European Union on 29th November 2013. This is considered as an important step towards the further integration of Moldova with the EU, and is expected to further deepen political, economic and trade relations between the two parties.

Moldova thus remains a partner country within the European Neighbourhood Policy and the EU-Moldova ENP Action Plan and draft Association Agenda defines the strategic objectives of political, economic and institutional reforms. Sound management and control of public finances, as well as improved public finance management and transparency, are key political dialogue and reform areas of the ENP Action Plan.

Development of efficient and accountable public administration as well as the institutional and functional development of public authorities, among other important elements, remain high in the EU-Moldova political agenda, and are defined as crucial cooperation areas in the Association Agreement.

Moldova has benefited from, and successfully implemented, European Commission budget support programmes since 1996; firstly under the Food Security Programme and since 2007 in the form of Sector Policy Support Programmes in the areas of rural development, social protection, health, energy, justice and water supply.

The proposed action, "Support to the implementation of DCFTA process in Moldova", aims at supporting the Government of Moldova (GoM) to progress in the crucial areas foreseen by the DCFTA chapter of Association Agreement, which are linked with the improvement of public governance and economic recovery and growth.

The National Development Strategy (NDS) Moldova 2020 represents the overall strategic development vision for the Republic of Moldova and covers the period from 2012 to 2020. It is a well-defined policy, and it has been duly adopted by the Government of Moldova as well as by the Parliament, - thus acquiring - a high political status[11]. The policy objective of the strategy is to promote sustainable economic development and poverty reduction. The main strategic policy priority is to support productive restructuring of the national economy, enabling it to maintain a high pace of economic growth (setting a rising GDP growth target of 6% and above by 2020). Such comprehensive strategy calls for a gradual shift from the current consumption-based growth model towards export-led, capital-based growth supported by investment in physical and human capital, trade promotion, technological upgrading and integration in European and global value-chains, so as to enhance productivity and competitiveness, and promote employment in a knowledge-based society[12].

In the DCFTA sector there is, primarily, one main relevant strategy linked to this particular action: Roadmap for "Increasing the Competitiveness of the Republic of Moldova", adopted by Government of Moldova decision in November 2013.

The Roadmap was developed by the Ministry of Economy with the assistance of the EU High Level Policy Advisory Mission (EU HLPAM) in 2013 and clarified the main (DCFTA-related) challenges and risks ahead, the existing gaps in key policy areas and the policy priorities to enhance both firm-level and national competitiveness. It also deals with improved market-access for both commodity and service trade, productivity-enhancing and regulatory

[11] Law No 166 of the 11th of July 2012. Officially published at http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=345635

[12] See also IMF's review of the NDS (country report 13/270 of August 2013) at http://www.imf.org/external/pubs/ft/scr/2013/cr13270.pdf

reforms, improvements in governance and coordination, capacity building and the active participation of all relevant stakeholders in policy implementation are identified as major policy priorities.

The Roadmap forms the basis for the current, on-going preparation and elaboration of a multi-annual DCFTA Action Plan, which itself will be realised via annual DCFTA Action Plans. The individual Action Plans, starting as of 2014, are designed in such a way as to respond to the needs not only of the Ministry of Economy (MoE), as the main coordinating body, but also to the needs of the different organisations involved in the DCFTA implementation, taking into account their existing processes, capacities and different institutional frameworks. Various Ministries, including the MoE, are currently finalising the 2014/2015 AA/DCFTA Action Plan which final version should be ready by mid-May, 2014.

Each annual DCFTA Action Plan thus will list the Government's DCFTA implementation policy and legal approximation priorities (policies, primary/secondary legislation and other actions necessary) regarding the execution of the DCFTA obligations for that year and feed into subsequent Annual Action Plans.

This particular action, especially its direct budget support part, will contribute to the significant improvement of four key competitiveness areas identified as crucial in the Roadmap for competitiveness: 1) quality infrastructure, 2) market surveillance, 3) internal and external markets conditions and opportunities; 4) competitiveness awareness in a AA/DCFTA context.

These four areas were identified following an intensive dialogue with the responsible Moldovan state bodies, at the forefront the MoE, and are in line with the private sector development priorities voiced by representatives of the Moldovan private sector during the consultation roundtable in Chisinau on the European Commission's Issue Paper covering the draft EC Communication: "On Strengthening the Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries" organised on 30th January 2014.

In Moldova the State Chancellery is responsible for leading and coordinating the overall reform process. At competitiveness and DCFTA level, it is primarily the MoE that is responsible for policy-setting. Specialised agencies, including the Moldovan SME Development Organisation (ODIMM) and the Moldovan Investment and Export Promotion Organisation (MIEPO), are responsible for the actual implementation of the policies set. The Ministry of Finance (MoF) will play a crucial role in planning and financing the programmes established by the MoE and its executing agencies.

The Monitoring and Evaluation Framework (M&E) is the responsibility of the State Chancellery, in charge of overall coordination and integration of the performance reports. M&E is primarily done using statistical data and the National Bureau for Statistics of the Republic of Moldova (NBS) is the main producer of such statistics. The Law on: "Official Statistics" broadly corresponds to the European Statistics Code of Practice.[13]

Furthermore, there was a M&E system created by Governmental Decision No. 168 dated 9th March 2010, according to which specific units are entitled to carry out systematic M&E of relevant public policies. Such units have been established within each Ministry and Agency including MoE. The State Chancellery is in charge of the development of the methodological guidelines for M&E reporting, which in practice is substituted by instructions issued on a case-by-case basis.

[13] Adapted Global Assessment (AGA) of the National Statistical System of Moldova, Eurostat funded project 'Global assessments of statistical systems of candidate and potential candidate countries as well as ENP countries'

Since October 2011 the State Chancellery has introduced a web-based monitoring platform, which is being updated quarterly, providing information regarding the implementation of the Governmental NDS-based Action Plan. Annual synthesis reports are prepared by the State Chancellery based on information provided by the ministries and agencies regarding the performance registered in their sectors.

Based on above assessment it can be concluded that there is a credible and relevant national/sector development strategy in place that supports the objectives of sustainable and inclusive growth, and democratic and economic governance.

2.3.2. Macroeconomic policy

During 2000-2008 the Moldovan economy experienced a period of sustained economic growth with an average annual real GDP growth rate of 5.9%. The GDP growth in 2011 was 6.4%. The economic growth was negative in 2012 with 0.7% contraction of GDP. The growth recovered the following year, and at the end of 2013 GDP came in at 8.9%. This was a much higher growth rate than expected. This growth was mostly contributed by the agricultural sector output of 30%, which had experienced a substantial 20% contraction in 2012.

The average rate of inflation in 2011 was 7.6%, slightly higher than the 7.4% rate registered in 2010. The increase in prices in 2011 reflected rises in the international prices for food and energy, as well as increases in the administratively-set tariffs for electricity, gas and heating in Moldova. The inflation rate decelerated in 2012 and 2013, to 4.6%. The drop in the inflation rate in 2012 reflected the drop in international prices of key components of the consumer price index.

The fiscal deficit dropped from 6.3% of GDP in 2009 to 2.5% in 2010, and was further reduced to around 2.4% in 2011. At the end of 2012 the fiscal deficit was 2.2% of GDP, and at the end of 2013 it was 1.8%. It is projected that it will increase to 2.6% of GDP in 2014. This is a result of much needed widening of capital spending which increased from 5.2% and 6.3% in 2011 and 2012 to 7.2% of GDP in 2013 and 2014 projected. At the same time, the Government continues to restrain the recurrent spending which is projected to be 32% of GDP against 34% in 2012.

The stock of public and publicly guaranteed debt as a share of GDP is modest and has followed a downward trend over the last three years. At end-2011 public and publicly guaranteed debt as share of GDP amounted to 28.3%, down from 30.2% and 32.4% at end-2010 and end-2009, respectively. In 2012 and 2013 the stock of public and publicly guaranteed debt was 31.1% and 30.2% of GDP and it is estimated that it will remain stable at this level during the following several years. Overall Moldova's public debt is at acceptable levels and is well below the regional averages.

Moldova has a fairly high tax revenue/GDP ratio (32%) compared to other CIS countries. By this indicator Moldova is marginally below the maximum of lower MICs (36.6%) and is well above the median of upper MICs (26.8%)[14]. The revenue collection is quite high for lower middle income countries and is higher than in many CIS and Eastern European countries. The Government continues intensification of its tax and customs administration efforts to safeguard fiscal revenue. These measures include (i) Improvements in customs clearance procedures to reduce the discretion of customs officers and the time spent by vehicles crossing the border; (ii) Intensification of inland control and inspections to monitor the final destination of imported products and reduce misclassification; (iii) Better monitoring of free economic zones' imports, production, exports, re-exports, and unjustified build-up of inventories to identify and correct inconsistencies.

[14] IMF, 2011, Revenue Mobilisation in developing countries

The Moldovan economy is vulnerable to adverse external shocks on key markets for its exports and/or host countries for its migrants. The current account deficit increased from 7.9% in 2010 to 11.4% of GDP in 2011 and decreased to 7.7% and 7.1% in 2012 and 2013 respectively, mostly reflecting an increase in the trade deficit. It is expected that starting from 2014 the current account deficit will remain at the range of 7-8%.

In October 2012, the IMF identified the following elements as factors posing serious downside risks to the Moldova economy: (i) possible intensification of the euro area crisis; (ii) slowdown of world growth affecting Moldova's CIS trading partners; (iii) sharp increase in world oil prices; (iv) deterioration of Moldova banking system's soundness[15]. The year 2013 has confirmed the fragility and opacity of the Moldovan banking sector. More recently, the geopolitical destabilisation in the region related to the Ukraine crisis is another major source of further vulnerability for the small, open economy of Moldova.

The IMF supported the Moldovan Government's macroeconomic programme under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements, which run from January 2010 until April 2013, for an amount equivalent to SDR 369.6 million (about US$569.4 million).

In November 2013, the government of Moldova requested from the IMF a new financing programme. In January 2014, an IMF mission was in Moldova to negotiate a new programme and almost agreed on a 15-month arrangement, combination of a Stand-By Arrangement and a concessional Stand-By Credit Facility. In view of Moldova's relatively comfortable external financial situation (external indebtedness represented about 80% of GDP and foreign reserves represented five months of imports at year-end 2013), the planned arrangement was to be of precautionary nature: IMF funds would be drawn upon only in the case of an adverse shock. However, both parties agreed that the risks of an adverse shock materializing were quite high, in view of a possible impact of a slowdown in the Russian economy, trade restrictions imposed by Russia and lower remittances resulting from a tightening of immigration rules in Russia (Moldova depends heavily on remittances of its migrant workers in Russia). The fragility and opacity of the banking sector also exposes Moldova to a financial crisis and capital outflows which, should they worsen, could push the country in an unsustainable balance-of-payments' situation. However, no agreement was concluded, as the Moldovan authorities were reluctant to implement potentially unpopular structural policy measures advocated by IMF staff in an electoral year.

Still, Moldova has shown good economic performance over the last three years. The Government also managed to maintain acceptable levels of inflation (below 5% in 2012 and 2013). Authorities have manifested fiscal prudence: capital expenditure has increased faster than current expenditure within a decreasing overall fiscal deficit (1.8% of GDP in 2013). The Moldovan authorities also managed to maintain public debt at relatively low levels (around 30% of GDP at year-end 2013). Lastly, the Moldovan authorities have managed to remain broadly on track with the IMF programme implemented between 2010 and 2013, meeting most quantitative targets and structural benchmarks.

Based on the above analysis, and despite the vulnerability of the Moldovan economy to external shocks and the need to implement further reforms in key areas of the economy, it is concluded that, overall, the authorities pursue a credible, stability oriented macroeconomic policy.

[15] IMF Country Report No. 12/288, October 2012

2.3.3. Public Financial Management (PFM)

In July-November 2011 the Government of Moldova updated the PEFA assessment first undertaken in 2006 and updated in 2008. PEFA 2011 is the most recent diagnostic study of public financial management in Moldova covering fiscal years 2008-2010.

PEFA 2011 results show progress in overall public financial management (PFM), including (i) improvement in twelve performance indicators; (ii) stability in thirteen indicators, of which six with maximum score of "A"; and (iii) deterioration in only three indicators.

The weaknesses of the existing PFM system include:

- Low quality of macroeconomic projections and revenue forecasting;
- The current medium-term budgetary framework (MTBF) does not provide transparent expenditure discipline for the medium-term largely due to the inconsistency in the presentation of planned expenditures between the MTBF and the annual Budget appropriation structure;
- Cases of delays in meeting the deadlines of the budget calendar;
- Flaws in financial reporting and accounting standards;
- Weak management of operational risks and fragmented debt recording system;
- Members of Parliament have limited capacity in scrutinising the budgetary documents and have little experience in interpreting reports of the Court of Accounts (CoA);
- Weaknesses in the contents of the CoA reports, whose focus is often on cases for the law enforcement agencies and not necessarily on topics of interest for a parliamentary discussion;
- Unsatisfactory follow up of the CoA reports by the Government.

Following the PEFA 2011 study the Government drafted and approved the Strategy for Development of Public Finance Management 2013-2020 (PFM Strategy 2013-2020)[16], which formalised the Government's commitment to improve in a sustainable way accountability and performance of public financial systems. The Ministry of Finance has approved the 2013-2014 action plan[17] detailing the actions envisaged in the Strategy and establishing a formal monitoring framework to follow up the implementation process.

The Government's PFM reform programme is relevant, because the approved PFM Strategy updates the status in crucial PFM areas, defines the areas of attention and weaknesses and presents the reform measures to address these weaknesses. The programme ensures full coverage of the weaknesses identified in PEFA 2011 and other PFM related technical documents. The PFM Strategy also constitutes a synthesis of on-going reforms by consolidating in one document the other policy actions and strategies already under way in several critical components of PFM[18]. The Strategy is in essence a summary of high level objectives in terms of short term realisable targets and longer term aspirations for meeting EU and international standards and practice.

Corruption risks related to the management of the capital budget, public procurement and payroll management are recognised and addressed in the Strategy. Also, measures related to improving internal control, financial inspection and fraud investigation are at the core of the PFM Strategy, together with measures aimed at the reinforcement of internal audit structures in all central public authorities and in second level local authorities.

[16] Government of Moldova Decree N 573 of the 6th of August 2013
[17] MoF Order N 130 of the 20th of September 2013
[18] Including (1) Public Debt Management Reform Plan, Moldova; (2) Strategy for Developing Public Internal Finance Control, Moldova; (3) State Tax Service, Moldova State Tax Service Development Plan for 2011-2015; (4) State Customs Service, Strategic Development Programme of Customs Service of Moldova 2012-2014

The PFM reform programme is credible, because the reform process is well sequenced, there is a high level of political commitment to reforms and clear leadership by the Ministry of Finance, the issues related to corruption and fraud are addressed, and there are clear arrangements for coordination and monitoring.

Based on the analysis above it is concluded that there is a credible and relevant programme (Strategy for Development of Public Finance Management) to improve public financial management.

2.3.4. Budget transparency and oversight of the budget

Moldova's draft and enacted budgets are published in the official gazette called *Monitorul Oficial*, and are made publicly available in printed form. In addition, the draft and enacted budgets are published on the website of the Ministry of Finance[19], as well as on the official website covering the entire legislation of Moldova[20].

The Executive's 2014 budget proposal was approved by the Government Decree No. 960 of 3rd December 2013. The budget proposal was published as a separate book. The budget proposal was also published and made available:

- In *Monitorul Oficial* No 284-289, Article No. 1066 of 6th December 2013.
- On the official website of the Moldovan legislation[21].
- On the website of the Ministry of Finance[22], including the text of the law, all seven annexes, as well as all explanatory, informative and analytical notes and tables prepared by the Government and accompanying the budget submission to the Parliament.

The 2014 budget was approved by the Parliament by the Law No. 339 of 23rd December 2013. The approved budget was published and made available:

- In *Monitorul Oficial* No 14-16, Article No. 34 of 21st January 2014.
- On the official website of the Moldovan legislation[23], including the text of the law with annexes.

Based on the evidence above the entry point is considered to be met.

The Government's intentions towards more transparency and oversight of the budget are relevant, because the PFM Strategy also addresses weaknesses in the area of transparency (a distinct section in the PFM Strategy), as well as PFM oversight and accountability.

The Government's intentions are credible, because there is a clear political commitment to further improve the transparency and quality of the budgetary information made available to the public. In addition, the Government has committed to participate in the forthcoming Open Budget index survey and start the publication of the Citizen's Budget, which are targets set in the PFM Strategy.

Based on the analysis above it is verified that the government has published both the executive's proposal and the enacted 2014 budgets, and that the eligibility on transparency and oversight of the budget is met.

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19 www.mf.gov.md
20 www.justice.md
21 http://lex.justice.md/viewdoc.php?action=view&view=doc&id=350544&lang=1
22 http://mf.gov.md/TranspDeciz/ProiecDeciz/bsparl
23 http://lex.justice.md/viewdoc.php?action=view&view=doc&id=351191&lang=1

2.4. Lessons learnt

Reviews of on-going and former programmes to assist the Moldovan Government funded by the EU as well as other donors have led to the following conclusions:

- There has been specific design problems in sector budget support programmes due to inconsistency together with a large number of Specific Conditions attached to disbursements. This practice has increased the risk of failure of programmes and decreased fiscal predictability.
- There is a need for clearer and more focused design:
  - to avoid delays in the implementation resulting from the plurality of state agencies involved in the attainment of the indicators; and
  - to remove differences in interpretation regarding performance and calculation of payments for the variable tranches between the Government and the EU.
- The programme must include a few, clearly defined conditions for disbursement and responsibility/accountability structures for the institutions responsible for the fulfilment of the variable tranche indicators. Visibility and publication is also a critical factor.

The specific lessons learnt during the implementation of previous sector budget support programmes is that technical assistance complementary to budget support has been essential in assisting the Government to meet its reform objectives.

2.5. Complementary actions

There is a large number of donors, both multilateral as well as bi-lateral, assisting Moldova in reforming the different sectors as covered by the Roadmap for increasing the competitiveness of the Republic of Moldova, i.e.: Human Resources; Access to Finance; Transport Infrastructure; Energy Infrastructure; Quality Infrastructure; the Information Society; Trade Facilitation; Tax Policy and Administration and Science, Technology and Innovation; Competition. Most of these donor programmes and projects have a strong capacity-building and institutional-strengthening component that will undoubtedly contribute to the sector reform focus envisaged under this SRC and accompanying complementary Technical Assistance (TA) actions.

From all donors operating in the sector in the Republic of Moldova, the European Union is by far the most important, both in monetary value and political importance. Some actions supported by the European Union in the Republic in Moldova that bear a direct link to this particular action include, amongst others: the on-going “Support to the Implementation of the DCFTA Process” TA project (EUR 2 million, started in December 2013) specifically dealing with legal approximation of laws and regulatory acts, the Vocational and Education Training (VET) Budget Support Programme approved with the EU-Moldova Annual Action Programme 2013, the SME Panel and Trade Panel under Platform 2 of the Eastern Partnership which includes policy dialogue with Eastern partner countries and corresponding implementation projects (such as Small Business Act Assessment and other projects to improve SME polices[24]), the dedicated SME Flagship (including East Invest and the projects of the SME Finance Facility), the various on-going Neighbourhood Investment Facility (NIF) projects, and, especially, the different Comprehensive Institution Building Programme (CIB) Twinning and Technical Assistance projects in the field of supporting the DCFTA

[24] The joint EC-OECD SME Competitiveness Project has developed Policy Roadmaps for Business Development Services (BDS) and Access to Finance for the Republic of Moldova

implementation. The implementation of the CIB programme will ensure complementarity to this SRC programme in terms of their concrete objectives, results and activities.

As such, amongst international donor organisations, the overall lead in AA/DCFTA donor coordination in the Republic of Moldova has been and is clearly assumed by the EU Delegation in Chisinau.

2.6. Risk management framework

The current risk profile of Moldova can be summarised as follows:

Risk	Level	Assumption and Risk mitigation
Governance and political		
Lack of commitment from the Government in undertaking targeted reforms	Moderate	Continuous policy dialogue with the Government within the framework of the Association Agreement
Macroeconomic		
Slowdown in world economic growth and growth in Moldova's main trading partners and vulnerability to exogenous shocks, that may affect budget revenues and lead to higher fiscal deficits	Moderate	Maintenance by the Government of stability oriented macro-economic policy that can be monitored regarding prudent fiscal policy
Public Financial Management		
Lack of commitment from the Government to implement PFM strategy	Moderate	Continuous dialogue with the Government on public finance policy issues and PFM reforms, use of the EU aid delivery mechanisms (budget support conditionality and complementary capacity building) to facilitate and embed the reforms
EU budget support programme		
Low predictability of budget support, delays in disbursements beyond the fiscal years they are planned for	Moderate	Use of clearly defined and realistic conditions for disbursement, clear and focused design of the Programme, minimisation of the differences in interpretation regarding performance and calculation of payments
Corruption and fraud		
Political resistance to implementing anti-corruption measures and increasing public sector transparency	Substantial	Continuous dialogue with the Government to apply rigorously the anti-corruption legislation and rules, as well as monitoring of corruption cases and their legal consequences
Developmental Policy		
Moldova's Roadmap for increasing the competitiveness of the Republic of Moldova remains DCFTA's key guiding and implementation document	Moderate	DCFTA SRC cannot be initiated using budget support aid modality and envisaged funds are directed to other programme/aid modality

Corruption and fraud is the main risk area for EU budget support programmes.

The on-going Public Administration Reform supported important developments towards an integral and efficient public service. A legal framework is being implemented which targets corruption (consisting of *Law on public service and status of public servant, Law on conflict of interest*, including a *Code of conduct*, *Law on public functions and Law on National*

Integrity Commission) and includes subsequent bylaws. Laws and amendments on status and professional activity of judges and prosecutors were adopted that reduce their universal immunities and allow investigation and prosecution of magistrates for corruption related acts. The Introduction of professional integrity testing and lifestyle checks in the public sector is underway. Financial Management and Control systems are being introduced in the public sector that will ensure sound financial management of public funds. International Financial Reporting Standards (IFRS) are being introduced to the private sector. Low capacity and lack of political will for implementation are risks, despite a generally good legal framework.

Legislation to reform the National Anticorruption Centre, re-subordinated from the Legislative to the Executive, have been approved as well as the National Integrity Commission has been set up and made operational. The reform of the Prosecutor's General Office has been initiated with strong emphasis on the reform of the Anti-corruption Prosecution system.

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

Objectives

The overall objective of this Sector Reform Contract and complementary support is to assist the Government of Moldova in promoting sustainable and inclusive growth, and consolidating and improving democratic and economic governance.

The specific objective is to support the implementation of DCFTA process in Moldova and the improvement of key competitiveness aspects in line with the policies and reforms outlined in the Association Agreement (AA)/DCFTA initialled between the Republic of Moldova and the EU in the following areas:

- Quality infrastructure, in particular standardisation, metrology, conformity assessment, testing, accreditation and international cooperation in these areas including recognition;
- Market surveillance and enforcement, including industrial and non-industrial products and services;
- Development and diversification of the Moldovan internal and external market conditions and opportunities for SMEs increased competitiveness;
- Extensive public awareness programme promoting competitiveness/DCFTA long-term benefits through public events for citizens, civil society representatives and businesses.

The envisaged SRC will have a direct impact on the following cross-cutting issues: poverty reduction through the establishment of a more competitive economy of the Republic Moldova leading to more and better paid jobs as well as gender equality and woman empowerment (GEWE) through the promotion of women entrepreneurship and employment, especially through the national local market SME/business development programmes that will be supported through this action.

3.2. Expected results

The expected results of this intervention are:

- Improved institutional capacities at Central Public Administrations (CPAs) and implementing bodies/agencies to design and implement specific competitiveness enhancement measures within a DCFTA context, also including needs assessment analyses and harmonisation of legislation.

- Improved cooperation between the relevant Moldovan-EU quality infrastructure and market surveillance services and bodies leading to their future integration within the corresponding EU network, where possible.
- Improvements of key competitiveness aspects within a DCFTA context, notably with respect to:
    - Quality infrastructure and procedures (standardisation, metrology conformity assessment, testing and accreditation);
    - Market Surveillance and enforcement;
    - Developing and diversifying the Moldovan internal and external market conditions and opportunities for SMEs increased competitiveness;
    - Public awareness programme that promotes the DCFTA long-term benefits through public events targeting citizens, civil society representatives and businesses including their possible integration into corresponding EU associations.
- Support the creation of new (woman-owned) businesses and generate more and better-paid (woman) jobs.

Complementary support combined with specific support measures planned under the CIB programme will provide capacity building and institutional strengthening support to the action stakeholders during the implementation of this SRC. Such support, especially in the field of designing, establishing, maintaining and upgrading stringent SRC M&E systems will, on the one hand, measure progress in attaining the specific SRC reform conditions set and, on the other hand, will facilitate and ensure a transparent implementation process of the SRC as a whole.

3.3. Rationale for the amounts allocated for budget support

The total EU contribution to this action is EUR 30 million. The rationale for this amount is based on a broad qualitative assessment that took into account - inter alia - an analysis of the following elements:

- Financing needs of the partner country;
- Commitment of the partner country to allocate national budget resources (including EU budget support) in line with development strategy and objectives and to follow standard national budget procedures;
- Effectiveness, value for money and impact of the specific added value that budget support will bring in achieving the partner country's policy objectives;
- Track record and absorption capacity of past disbursements and how effectively agreed objectives were achieved with budget support operations;
- Result orientation in the partner country's development strategy including a monitoring system.

The proposed programme for improving specific competitiveness aspects within a DCFTA context cannot be assigned to a specific sector because of the cross-cutting nature of the contents, and therefore, there is no sector budget and/or sector MTBF as such.

However, even though there is no explicit sector budget and/or sector MTBF as such for competitiveness/DCFTA, the sector budget can be estimated by the sum of the total of expenditures assigned to public entities involved in the competitiveness/DCFTA process. These include, inter alia, a number of Directorates under the MoE as well as the budgets of key organisations central to DCFTA implementation such as the Moldovan Small and Medium Sized Enterprise (SME) Development Organisation (ODIMM), the Institute of Metrology, the Institute for Standardisation, the Accreditation Body, various laboratories, etc.

The proposed SRC will provide additional fiscal space to the government. This should enhance the prospects for executing future DCFTA-embedded competitiveness improvement expenditure plans to be set out in the State Budgets of Moldova. It is therefore important to ensure that there is a full understanding of the financial nature of the programme between the EU, the Ministry of Finance and the Ministry of Economy during the whole execution of this Action.

It should be noted however, that there is quite a large discrepancy between the financing needs as specified in the different strategic ministerial competitiveness policy documents and approved state budgets. Hence, the possibility to increase the levels of sector spending may be considered desirable and a relevant dialogue on the sector expenditure path should be carried out with the Government and the Ministry of Finance during the SRC execution period.

3.4. Main activities

Main activities to be carried out within the framework of this SRC will include:

- Continued policy dialogue with the Government and the private sector with a particular focus on areas reflected in the programme's objectives;
- Continued effort to reinforce Government's capacities in the area of PFM in the context of existing complementary support programmes;
- Continued dialogue between the EU and other donors to coordinate and further align our development cooperation with a view to avoiding duplication of activities and relieving the Government from multiple reporting duties;
- Transfer of funds to the State Budget against the results achieved according to the policy matrix;
- Regular monitoring of budget support eligibility criteria:
    - Monitoring of achievement of the public policy implementation priority objectives will be undertaken on the basis of annual progress reports and other EU or development partners' reviews, supported by regular briefings for and discussions in the relevant sector working group;
    - Monitoring of macro-economic developments will be performed in the context of the IMF missions and other relevant assessments;
    - Monitoring of PFM eligibility will be done on the basis of the reviews of the government's PFM reform strategy and associated assessments or ad-hoc analysis from the IMF and other Development Partners, including sector specific analysis.
    - Monitoring of budget transparency will be undertaken through verifying public availability of appropriate documentation.

3.4.1. Budget Support

Main activities to be carried out within the framework of the budget support component of this SRC will include:

- Engagement in dialogue around conditions and government reform priorities;
- Verification of conditions and the payment of budget support against the results achieved according to the policy matrix.

3.4.2. Complementary support

Main activities to be carried out within the framework this SRC will include:

- Grants/Call for Proposal to promote Civil Society Organisations' (CSOs) involvement in improving Moldova's competitiveness aspects within a DCFTA context especially for actions that are gender equality and woman empowerment (GEWE) orientated and supporting women in entrepreneurship;
- Procurement (direct management) of a Technical Assistance (TA) Service Contract to accompany the SRC 'Support to the Implementation of DCFTA process in Moldova' and a global Service Contract for communication and visibility of actions related to AA/DCFTA implementation in the framework of EU funded assistance programmes;
- Procurement (direct management) of SRC evaluation and audit missions.

3.5. Donor coordination

The donor coordination in Moldova is led by the Government of Moldova. There is a formal donor coordination mechanism approved by the Government that sets forth all the procedural aspects and institutional grounds for coordination of bilateral and multilateral foreign aid[25]. In addition, the State Chancellery organises annual donor meetings and presents annual reports on the use of foreign assistance provided to Moldova.

The Ministry of Foreign Affairs, as the Ministry assigned with overall responsibility for AA negotiations and implementation and as new CIB coordinator, is playing a leading national role in providing leadership and ensuring coordination at overall AA level with the MoE, as the Ministry assigned with overall responsibility for DCFTA negotiations and implementation, playing a similar leading role at DCFTA level.

Key bodies, especially set-up for "guiding" the overall AA/DCFTA process include, amongst others:

- The overall AA Coordination Committees such as the Association and the Association Agenda Committees;
- The "Ministerial Committee for EU Integration" chaired by the Prime-Minister, which was formed on 9 February 2009. It decides and coordinates issues pertaining to the overall EU integration process.
- The High-Level Working Group III on "Economic, Sector and Financial Cooperation", which was established in February 2011.
- A Technical Working Group composed of 26 senior officials from Ministries and Government Organisations (2-3 from each Ministry). Participants in the Technical

[25] Government Decree N 12 of the 19th of January 2010

Working Group act as contact persons for each Ministry, providing information on policy positions, thus assisting the MoE in coordination.

- Three sector Sub-Working Groups, set up in March, 2011, that focus on key DCFTA policy areas, namely Market Access and Customs Administration, Measures and Trade Barriers and Non-Tariff Measures and Financial Services and Competition.
- A Sub-Working Group on Consultations with Private and Non-Governmental Organisations, which promotes awareness building and improves policy dialogue activities.
- A National Participation Council, which was set up on 22 August 2011. It promotes the involvement of social partners in DCFTA policy design and implementation.
- An Economic Council, which consults public institutions, business associations and the National Participation Council on specific DCFTA issues.

3.6. Stakeholders

The main stakeholders for this Action will include the Ministry of Economy as well as different other Moldovan agencies and state bodies including but not limited to: the National Institute for Standardisation, the National Institute of Metrology, the National Accreditation Body, the Consumer Protection Agency, the Moldovan Investment and Export Promotion Organisation (MIEPO) and the Moldovan SME Development Organisation (ODIMM). Private sector representatives are members of the Board of Directors of both MIEPO and ODIMM. Also included will be the sector service providers notably the testing and calibration laboratories, certification bodies, business development service providers and other service-providing NGOs and the National Bureau of Statistics. The Ministry of Finance (MoF) will play a key role in planning and financing the reform programmes established by the MoE and its executing agencies.

Main indirect stakeholders and ultimate beneficiaries of the SRC will be the Moldovan enterprises and population at large that will become more competitive within a DCFTA context.

Furthermore, once on stream, the SRC will have a noticeable impact on the capacities and capabilities of central ministerial and subordinated agency staff in setting and implementing sector reform competitiveness development policies. This process will undoubtedly need to be accompanied by a wide range of institutional-strengthening, capacity-building and training measures at central and agency level, covering all aspects of competitiveness policy-making and implementation within a Competitiveness/DCFTA context. A major part of this support will be provided through the different DCFTA support projects foreseen under the CIB programme.

3.7. Conclusion on the balance between risks (2.6.) and expected benefits/results (3.2.)

Comparing the expected benefits and results as enumerated in section 3.2. to the risks listed in section 2.6. of this Action Document, the potential benefits/expected results of the envisaged budget support programme far outweigh any risks identified.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4. and 4.4. will be carried out, is 48 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The European Parliament and the relevant Committee shall be informed of the extension of the operational implementation period within one month of that extension being granted.

4.3. Criteria and indicative schedule of disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows: Satisfactory progress in the implementation of the action-relevant chapters of the Roadmap for "Increasing the Competitiveness of the Republic of Moldova" and DCFTA Action Plan and continued credibility and relevance thereof; implementation of a credible stability-oriented macroeconomic policy; satisfactory progress in the implementation of the 2013-2020 PFM Improvement Strategy; satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for variable payment tranches covering the following four budget support component areas: quality infrastructure, market surveillance, local and international markets opportunities and competitiveness/DCFTA awareness.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on fiscal year of the partner country.

	2014				2015				2016				2017				
Type of tranche	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Total**
Base tranche			8														**8**
Variable tranche										8				9			**17**
Total			**8**							**8**				**9**			**25**

4.4. Details on complementary support

4.4.1. Grants: call for proposal "Strengthening role of civil society in improving Moldova's competitiveness aspects within a DCFTA context" (direct centralised management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

Grants for specific competitiveness support actions within a DCFTA context, especially for actions that are gender equality and woman empowerment (GEWE) orientated and are supporting women entrepreneurship.

(b) Eligibility conditions

Application is open to entities having an establishment in Moldova only. Eligible applicants can be legal entities, natural persons or groupings without legal personality, local authorities, public bodies, international organisations, NGOs, economic operators such as SMEs.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

Actions mobilising and empowering women from underrepresented and/or vulnerable groups will be positively favoured.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80%.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012 if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative quarter to launch the call

2nd quarter of 2015

4.4.2. Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative quarter of launch of the procedure
Accompanying TA to the Sector Reform Contract: 'Support to the Implementation of DCFTA process in Moldova'	Services	1	Q1 2015
Service contract for communication and visibility of actions related to AA/DCFTA implementation in the framework of EU funded assistance programmes	Services	1	Q1 2015
Evaluation and Audit	Services	2	Q1 2018

4.5. Scope of geographical eligibility for procurement

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 9(3) of CIR Regulation[26] on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.6. Indicative budget

Module	EU contribution (in EUR millions)	Third party contribution (in EUR millions)
3.4.1. – Budget support	**25**	**N.A.**
3.4.2 – Complementary support	**5**	**0.075**
4.4.1. – Call for proposals "Strengthening role of civil society in improving Moldova's competitiveness aspects within a DCFTA context" (direct management)	*0.3*	*0.075*
4.4.2. – Procurement (direct management)		
a) Accompanying TA to the Sector Reform Contract	*2.5*	*N.A.*
b) Service contract for communication and visibility of AA/DCFTA implementation	*2*	*N.A.*
4.8. – Evaluation and audit	*0.2*	*N.A*
Totals	**30**	**0.075**

4.7. Performance monitoring

Monitoring missions will take place at the end of the financial year to review the progress of the reform, checking financial and budget executions reports in order to collect evidence on the funding and the budget allocations. The performance criteria to be reached according to the Competitiveness Roadmap will be used as disbursement target.

Six-monthly programme steering committee meetings, organised and held under the auspices of MoE, and to which all relevant action stakeholders including the EU Delegation to Moldova will be invited, will review and assess overall performance in achieving the SRC's reform objectives and indicators. At these meeting corrective measures, if so warranted, will also be discussed and agreed upon.

4.8. Evaluation and audit

The European Commission foresees evaluation and audit after completion of the Programme.

[26] Regulation (EU) No 236/2014 of the European Parliament and of the council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external actions.

4.9. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures, which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated before the start of implementation and supported with the budget indicated in section 4.6 above.

The measures shall be implemented either (a) by the Commission, and/or (b) by the partner country, contractors and grant beneficiaries. Appropriate contractual obligations shall be included in, respectively, financing agreements, procurement and grant contracts.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

As part of the Financing Agreement, the Moldovan government undertakes to ensure that the visibility of the EU contribution to the SRC is given appropriate coverage in the various publicity media. The accompanying TA Service Contract will endeavour to further enhance the positive image of the EU in the context of its work in Moldova and specific provision for this purpose will be included in the TA Service Contract.

At appropriate milestones during the SRC duration and after appropriate events, press releases will be issued, by MoE in co-operation with the EU Delegation to Moldova. In all these actions, the EU visibility guidelines will be strictly adhered to.