

ACTION FICHE FOR MOLDOVA

1. IDENTIFICATION

Title	Assistance to reform in the Moldavian social assistance sector		
Total cost	€ 21 million		
Aid method / management mode	Sector Policy Support Programme / centralised management		
DAC-code	16010	Sector	Social/welfare services

2. RATIONALE AND COUNTRY CONTEXT

2.1. Economic and social situation

With a GDP per capita of USD 1,729 and a Human Development Index of 0,694, ranking 114 among 177 countries, Moldova remains one of the poorest countries in Eastern Europe. Between 2000 and 2006, Moldova's strong growth performance (GDP annual growth averaged 5.7%) has reversed a decade of economic decline leading to a massive movement out of income poverty¹. Inflation receded (although remaining in the two-digit range) and the national currency remained relatively stable. In the 2007-2009 Medium-Term Expenditure Framework (MTEF) stability of the exchange rate is expected to be still sustained and GDP growth is projected at 6%. The main sectors contributing to the growth are the service sector, industrial and agricultural production. Inflation for 2009 has been projected at 7%. Average salaries are projected to grow by 12% on an annual basis.

In the framework of their talks with the IMF, Moldovan authorities issued in May 2006 a Memorandum of Economic and Financial Policies expressing their commitment to implement macroeconomic and financial policies conducive to sustainable growth of the Moldovan economy, and to continue structural reforms in the area of fiscal, public administration (PAR) and public finance management (PFM).

The economic prospects of the country have been affected by two severe external shocks: the Russian ban on Moldovan wine export and the surge of price of gas imported from Russia, which nearly tripled between 2005 and 2007. According to the IMF, these will result in a deceleration of growth, stronger inflation and a widening of the balance of payment deficit. The Moldovan authorities have reacted promptly to mitigate the impacts of these shocks. Planned increases in public sector wages were scaled back and the monetary policy tightened. Despite these shocks, recent assessments of the IMF on GoM macroeconomic policy (both in terms of performance and ownership) remain quite positive².

Donors gathered at the Donors' Consultative Group Meeting held in Brussels in December 2006 have announced a financial support to Moldova of USD 1.2 billion for the next three years. Already in May 2006, the IMF Executive Board had approved a SDR 80.8 three-year PRGF arrangement later augmented to SDR 110.88 million (approximately EUR 128 million). In April 2007, the European Council has decided to grant a Euro 45 million Macro-Financial Assistance disbursed in 2007-2008³.

The fact that poverty reduction has stalled since 2004⁴ has raised concerns that Moldova's growth paradigm, largely driven by the expansion of domestic household consumption and fuelled by massive

¹ In 2004, 26.5% of Moldovans were poor and 14.7% extremely poor as opposed to, respectively, more than 70% and about 60% in 1999.

² IMF; First Review PRGF, Nov.2006, released in February 2007: "Programme conditionality has largely been met during the first six months of the PRGF arrangement. All quantitative performance criteria and indicative targets have been met with the exception of the international reserves target, which was missed because of the shocks. Structural conditionality was also broadly met, and the authorities have shown considerable programme ownership".

³ Council Decision Nr. 2007/259/EC.

⁴ Poverty rates continued to decrease in large towns from 23% in 2003 to 15% in 2005, but hardly diminished in small towns, and deteriorated from 36% to 43% in rural areas where nearly two-thirds of the population lives.

inflows of workers' remittances (accounting for more than 30 percent of the GDP), may not be sustainable in the long term or conducive to further reducing poverty. Besides, despite the existence of sound macroeconomic policies, the quality and equity in access to public services and the efficiency of resource utilisation remains problematic.

As noted above, Moldova is effectively implementing a programme of macroeconomic and financial management agreed with the IMF and benefits from several sources of aid channelled through budget support (including from the World Bank and the European Commission). The recent assessment⁵ of the strengths and weaknesses of the PFM system using the PEFA assessment framework is relatively positive with 18 indicators out of a total of 28 being given an A or B mark⁶. The country therefore meets the general requirements set forth in Article 15 of Regulation (EC) No 1638/2006 of the European Parliament and of the Council⁷.

2.2. Cooperation policy of beneficiary country

The Partnership and co-operation agreement between the Community and its Member States and the Republic of Moldova as well as the European Neighbourhood Policy (ENP) Action Plan currently in force are the main elements of the Policy Framework which have guided the programming of Community assistance. Moldova's Country Strategy Paper (2007-13) and the National Indicative Programme 2007-10 have been designed on the basis of such principles and policy framework, and focus on three priority areas⁸. This Programme directly addresses priorities in the area of Poverty reduction and administrative capacity building.

The GoM Economic Growth and Poverty Reduction Strategy Paper (EGPRSP)⁹ aims at sustainable and inclusive economic growth, reduction of poverty and inequality and development of human resources, notably through significant improvement in the quality of medical and educational services.

2.3. Government Sector Programme

The EGPRSP underlines the need for a reform of the social assistance system, since this is the main instrument available to the GoM to tackle deep poverty. The current system suffers from serious weaknesses which hamper both its effectiveness and efficiency, notably a very poor targeting of social allowances. In October 2005 the GoM adopted a specific Resolution "on increasing the efficiency of the social assistance system", which paves the way for the implementation of a means-tested social allowances system.

The Ministry of Social Protection, Family and Child (MSPFC) established in March 2007 is responsible for formulating policy in the areas of social protection, social assistance and child care (formerly endorsed to Ministry of Health and Social Protection). It has been given mandate to carry out the reform of the social assistance system. The priorities for reforms in the social assistance sector are included in the 2007-2009 MTEF. Within the Social Assistance sector, other prerequisites for implementing a sector budget support, and namely (i) a clear Government strategy; (ii) a structured policy dialogue between the Government and the Commission; and (iii) a monitoring of the strategy implementation and outcomes are also met or in the process of being met.

⁵Government of Moldova/European Commission/SIDA/UNDP; Public Expenditure and Financial Accountability Assessment, Public Financial Management Performance; June 2006.

⁶ PEFA indicators are measured against a four point ordinal scale.

⁷ The general provisions establishing the ENPI state under Art. 15 that community assistance to neighbouring countries, to which Moldova belongs, "may be used (...) for sectoral or general budget support if the partner country's management of public spending is sufficiently transparent, reliable and effective, and where it has put in place properly formulated sectoral or macroeconomic policies approved by its principal donors, including, where relevant, the international financial institutions."

⁸ (1) Support for Democratic Development and Good Governance; (2) Support for Regulatory Reform and Administrative Capacity Building; (3) Support for Poverty Reduction and Economic Growth.

⁹ Government of the Republic of Moldova (May 2004) EGPRSP 2004-2006: during 2007 this document will be replaced by a National Development Plan, currently in process of being drafted, which is a more compact and better prioritised policy document without departing from the objectives of the EGPRSP.

2.4. Lessons learnt

The following lessons can be drawn from the experience gained from FSPs and several actions funded under TACIS in support of the implementation of the EU-Action Plan in PFM, PAR and poverty alleviation:

- Besides a policy dialogue at high level, success of the programme requires permanent exchanges at technical level between the Commission staff and Government bodies;
- Benchmarks and performance indicators attached to the programme must be carefully discussed with the Government in order to ensure relevance, feasibility and ownership;
- Technical assistance support, including under the form of ad hoc expertise, is an extremely useful complement to sector budget support.

2.5. Complementary actions

The reform of the Social Assistance requires a set of legal, administrative, institutional and public finance bases that are dependant upon reforms taking place in the areas of PFM and PAR, and that have now entered into full motion. The current PFM reform plan of the GoM, covering the entire public revenue and expenditure process, is supported by a USD 15.3 million World Bank project and by other donors. The Swedish Cooperation supports the implementation of the Court of Accounts strategic plan. The reform plan is closely monitored by the IMF, the World Bank and the European Commission itself¹⁰.

A strategy for the Central PAR has been adopted by the Government in December 2005 with a view to establish a modern, efficient central public administration system compliant with EU standards. This programme is supported by a technical assistance project financed by a USD 6.15 million grant from a multi-donor trust fund managed by the World Bank. In 2006, a government-wide functional review has lead to proposals for functional improvements of several Ministries, including the Ministry of Finance and the newly established MSPFC. The progress of the implementation of the CPAR is being monitored as part of the conditionalities of the World Bank PRSC.

End 2006, the DFID-SIDA launched a large technical assistance project to develop the policy and institutional framework to support the provision of effective and sustainable social assistance services. The DFID-SIDA project will assist the MSPFC with meeting the conditions of this programme, Additional technical assistance and expertise will be made available to the MSPFC and to other stakeholders of the Programme via the "Support in addressing social consequences of transition" action approved by the Commission under Moldova TACIS 2005 Action Programme¹¹.

2.6. Donor coordination

A major progress towards coordination and harmonisation has been achieved in May 2006 with the adoption by the Government and all main donors of a Development Partnership Framework: this document states in particular that the EGPRSP/European Union-Moldova Action Plan is the overall framework for national planning, identification of priorities and interventions for development, poverty reduction and achievement of internationally agreed MDGs. However donor coordination should be improved in terms of avoiding overlapping and setting up different deadlines for engagements to be achieved by the Government of Moldova.

¹⁰ The FSP has significantly contributed to the formulation of an action plan for aligning budget classification and accounting to GFS 2001 and EU standards, and to the development of the concept paper on internal control in the public sector, which needs to be further developed across public spending units. In addition, both this Programme and the Council Decision on new macro-financial assistance to Moldova (a grant of 45 million euros) adopted in April 2007 are intended to provide budgetary resources to Moldova within the same macro-economic context and are contributing to the financing of the government's social reform and economic programme in a complementary manner.

¹¹ Commission decision C(2005)4155.

3. DESCRIPTION

3.1. Objectives

The overall objective of the sector programme is to reinforce Moldova-EU cooperation for addressing the priorities of the Moldova-European Union Action Plan relative to poverty alleviation. The specific objective of the sector programme is to assist the GoM in the design, adoption and implementation of a social assistance policy addressing the issue of extreme poverty in an effective and efficient manner.

3.2. Expected results and main activities

Main activities and results anticipated over the time span of the Programme consist of the following:

1. A strategy for restructuring social assistance is developed on the basis of the analysis of poverty carried out in Moldova, of the assessment of the weaknesses of the current social assistance system; lessons learnt from new, pilot social assistance system, already carried out with assistance of the EC-funded FSP;
2. Implementation modalities of the strategy are investigated. This includes in particular the development of alternative benefit packages with assessment of their impact on poverty and on the state budget; the development of methodologies for means testing; design of a registration mechanism of beneficiaries; investigation of the organisational issues related to the management of the restructured social assistance system; an action plan for implementing the strategy is developed and pilots of means testing implemented;
3. A Law on Social Assistance is drafted and discussed by the Parliament;
4. A Government Decision defines the eligibility criteria for benefiting of social assistance, sets the minimum level of income which social allowances aim at ensuring to all Moldovan citizens, and specifies the revision mechanism of this income benchmark;
5. Ensuring that a social assistance sector rolling MTEF is elaborated and consistent with the overall MTEF in place, and that management of the financial resources allocated to social assistance abides by PFM rules and best practices. These principles encompass the programming and budgeting process, execution of the budget, internal financial control, internal and external audit;
6. The Public Administration Reform is implemented within the institutions in charge of social assistance; the personnel in charge of managing the social assistance system receive adequate training;
7. An information/awareness campaign is carried out to explain to the general public and key stakeholders what are the reform objectives and the modalities for potential beneficiaries to apply for social allowances;
8. A monitoring and evaluation system of social assistance is established, involving relevant Government and, to all possible and feasible extent, non governmental institutions as well as research centres;
9. Lessons learnt from the monitoring and evaluation process are used to improve over time the effectiveness and efficiency of the system.

3.3. Stakeholders

Stakeholders of the Programme include:

- The Prime-Minister Office, in particular its department for relations with the donor community;
- The MSPFC, established as of March 2007, in charge of developing the social assistance strategy, designing the new social assistance system, creating the overall conditions for implementation, being accountable to the GoM for the results.
- Local Governments (Raions and Primarias): District Social Assistance Departments that shall be responsible for assessing eligibility of applicants to social allowances ; the mayors of primarias (municipality level) shall be responsible for ensuring access to social assistance services with the assistance of social workers recruited by Raion administrations;
- The National Social Insurance House, which shall carry out the payment of social allowances, maintain the beneficiary data register, provide links to other registers for eligibility-check (tax, cadastre, vehicles, second pension from Russian Federation etc.).
- The Ministry of Finance responsible for funding the social assistance system;

- NGOs and other civil society organizations representing the interests of the target groups for providing feed back on the quality and accessibility of the social assistance system and research institutions.
- Donors supporting the Social Assistance reform

Other stakeholders include the National Bureau of Statistics, who is in charge of collecting and disseminating baseline information related to income and poverty at national level.

3.4. Risks and assumptions

The key assumptions of the Programme are:

- The GoM is willing to conduct a policy dialogue with the European Union and other interested donors on its reforms of social assistance, PFM and public administration.
- The GoM will keep its commitments under the ENP Moldova-European Union Action Plan and keep its commitment towards the donor community to further reform its PFM system and to implement its Public Administration Reform.
- The GoM is genuinely committed to elaborate and implement its reform of the social assistance system.

Main risks inherent to the implementation of the Programme, and envisaged mitigation measures are:

- Reform of the social assistance system could face an organised political opposition from current beneficiaries of the system that would lose from the improved targeting of social allowances. This risk could be mitigated by an information campaign.
- Reform of social assistance will very likely involve a redistribution of responsibilities, including upon financial management, between different levels of government. Getting support from local governments through an involvement of their representatives in the preparation of the reform should help in preventing this risk.
- The GoM is operating under tight budget constraints. It is under pressure, including from donors and IFIs, to give priority to capital investments that have been neglected for years and are a key condition for integrating the Moldovan economy in the European economy at large. In this context, the priority given to the reform of social assistance might be demoted. A sector policy support programme aimed at accompanying the social assistance reform in an effective manner to avoid that this risk materialises. Projections indicate that, after an initial increase of expenditure (corresponding to the investment cost of the reform and spanning over two to three years) the reform should result in decreased spending and thus benefit not only the poorest strata of the population, but the country as a whole.

3.5. Crosscutting Issues

This Programme should have a neutral impact on the environment. Poverty is a push factor that forces women (accounting for some 30% of Moldovan migrants) in migration and sometimes in trafficking. Combating extreme poverty will therefore have a positive impact on the condition of Moldovan women and their children. The issue of good governance is also addressed by the programme through a series of conditions related to public finance management and to central administration reform.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Centralised management: Following the adoption of the financing decision by the Commission, a Financing Agreement (FA) will be signed with the Government of Moldova. Modality of aid delivery will be untargeted sector budget support under centralised management. Funds will be channelled to the State Treasury. The technical assistance component of the programme will be managed centrally and directly by the Commission.

4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

4.3. Budget and calendar

The budget of the programme, of Euro 21.0 million, is allocated to the following two components:

Budget support component: € 20.0 m
Technical assistance (information on, reviews and evaluation of the programme, etc.): € 1.0 m

It is foreseen that the implementation period of the Programme, to be specified in the FA, will extend over 54 months (excluding the contracting period). It is anticipated that three disbursements of respectively Euro 5.0, 7.5 and 7.5 million will take place during the implementation period (in principle, one per year). The endorsement of the FA of the Programme by the Government of Moldova shall create the condition for disbursement of the first instalment. Disbursement of the following instalments will be contingent on Moldova meeting the benchmarks / performance indicators detailed in the Financing Agreement. Partial disbursements may occur in case of delay in meeting the above mentioned benchmarks/ performance indicators, and could result in a last, fourth disbursement occurring within the Programme implementation period.

4.4. Performance monitoring and criteria for disbursement

A Steering Committee will be established to monitor the implementation of the programme, under the chairmanship of the Deputy Prime Minister in charge of donor coordination and budget support operations and meet at least twice a year. Prior to the meeting of the Steering Committee, progress reports describing developments in the implementation of the Social Assistance reform and stating how far the benchmarks/performance indicators attached to the programme have been met. Information required to elaborate these reports will be collected from the ministries in charge of implementing the reforms. If considered appropriate, and until a fully fledged monitoring mechanism satisfying the requirements of the Programme is in place, the European Commission might use the technical assistance component of the Programme to strengthen reporting capacity within relevant ministries and to carry out an independent assessment of the level of achievement of the indicators determining the disbursement (or not) of the instalments.

Along with the signature of the Financing Agreement, the disbursement of the first instalment will be contingent on the following general conditions to be complied with by the GoM:

- Progress in the implementation of a macroeconomic and financial policy, conducive to strong and sustainable economic growth and commitment to implement the measures of the EU-Moldova Action Plan related to macro-economic policy;
- Progress in the implementation of GoM PFM reform programme and demonstrates commitment to implement relevant articles of the EU-Moldova Action Plan (namely, under the current version, article 40 (Public Procurement) and 42 (Sound management and control of public finances);
- Progress in the implementation of GoM Central Public Administration Reform.

Reviews by the IMF staff under the PRGF will serve as a basis for assessing the macroeconomic and financial policy. Commitment of the GoM to implement the EU-Moldova Action Plan will be assessed on the basis of the Action Plan implementation reports produced by the European Commission, in cooperation with the Government and/or with other interested organizations.

In order to assess the progress of reforms in Public Finance Management and Public Administration, the Commission will avail itself of the assessment made by its own staff, of the reviews carried out in the framework of the World Bank PRSC and, if need be, external technical expertise. To all possible extent, the schedule of reviews will be coordinated with other donors involved in Budget Support operations. Although this is not a strict obligation under the current Programme, the Government will be encouraged to set up an "institutionalized" monitoring system acceptable to the Commission.

Once the sector budget support programme has entered into force, its continuation will be contingent on further maintaining the general conditions throughout its implementation period. Subsequent disbursements will be conditional to the achievement of the targets related to the indicators which will be included in the Technical and Administrative Provisions of the FA and which will be related to the activities listed above under §3.2.

4.5. Evaluation and audit

Prior to the completion of the sector budget support programme, the European Commission will mandate consultants to carry out an independent final evaluation of the programme. The programme will be subject to independent reviews that will assess the level of compliance/ performance with its conditions/indicators set forth in the Financing Agreement. The European Commission might mandate consultants to carry out, in close cooperation with the Chamber of Accounts of Moldova, an audit of a sample of expenditures related to the implementation of the GoM social assistance policy.

4.6. Communication and visibility

In the Financing Agreement, the Government shall commit itself to ensure that the visibility of the EC contribution to the Programme is at least equivalent to that given through media to other donors supporting the implementation of GoM reforms in the area of PFM, PAR and social assistance.