

1. IDENTIFICATION

Title/Number	Sector Policy Support Programme in the Water sector Cris N° ENPI/2008/020-520		
Total cost	€45 million		
Aid method / Method of implementation	Sector Policy Support Programme, direct centralised management and indirect centralised management		
DAC-code	14020	Sector	Water Supply and Sanitation

2. RATIONALE AND COUNTRY CONTEXT

2.1 Country context and rationale for SPSP

The Republic of Moldova is a small country in south-east Europe lying between Ukraine and Romania and has a surface area of 33,846 km². The country comprises 3 municipalities, 52 towns, and approximately 1,480 rural communities. The current population of 3.6 million¹ (excluding Transnistria) is predominantly rural with 59% of the population living in towns and villages of fewer than 10,000 people. The Republic of Moldova’s water resources are estimated at about 1.32 billion m³/year. The main rivers, the Nistru and Prut, account for 80% and 14% respectively of this figure while groundwater provides 6%. There are approximately 3,800 artesian wells together with 120,000 shallow wells and springs. Surface water abstracted from the rivers provide most of the urban drinking water requirements while in rural areas, shallow wells constitute the key source of water supply. The river waters are moderately polluted while water from shallow wells is more so and they seldom comply with international quality standards. Untreated wastewater discharges pollute rivers and groundwater with negative implications for overall water quality, sensitive eco-systems and international waterways. The situation is wholly unacceptable to the Government and donors alike and urgent intervention is required.

2.1.1 Economic and social situation and poverty analysis

Following independence from the Soviet Union in 1991, family incomes in the Republic of Moldova dropped substantially and many households had incomes less than the subsistence level especially in rural areas. Poverty was widespread and as a result, many young Moldovans chose to emigrate to Western countries. The resulting brain drain led to a dearth of suitably qualified technical and management personnel across all sectors. For those who chose to remain, salaries are correspondingly low with reduced quality of life. Since then, the Republic of Moldova’s economic situation has fluctuated from one of despair in the immediate years after independence to a more positive outlook since 2007. Although overall GDP is growing at a steady pace of approximately 5%/a² per capita GDP is significantly low at USD 2,100, currently making the Republic of Moldova one of the poorest countries in Europe. Water supply and sanitation infrastructure is crumbling which creates the conditions in which waterborne diseases such as hepatitis and dysentery proliferate. This results in approximately 2,000 premature deaths³ per year with a corresponding cost to the national health service of some 5-7% of GDP⁴. The importance of safe water supply and sewerage systems in the overall economic life of the Republic of Moldova cannot thus be overestimated.

2.1.2 National development policy

A fundamental objective of the National Development Plan 2008-2011 is the creation of the necessary conditions for improving quality of life through sustainable and inclusive economic growth. The National Development Strategy (NDS) 2008-2011 targets the consolidation of measures for preventing pollution

¹ Statistical Yearbook of the Republic of Moldova 2007

² Ministry of Finance, the Republic of Moldova 2008

³ ‘The Quality of Growth’, Vinod Thomas, World Bank Publications 2000 p85

⁴ National Environment Action Plan 1996

and promoting efficient use of natural resources with a view to ensuring continued health and quality of life. The proposed SPSP is therefore fully consistent with national development policy.

2.2 Sector context: policies and challenges

Drinking water: Only 45%⁵ of the population has access to potable water complying with Government standards⁶. Although most urban water supply systems provide treated water of acceptable quality, however, in the rural areas, only 20%⁷ of deep and shallow wells are satisfactory. Shallow wells are polluted by human and animal waste, illegal garbage dumps and dung heaps resulting in high concentrations of micro-organisms, nitrates and sulphates. Rural dwellers have little knowledge and appreciation of the health risks posed by inferior drinking water and poor sanitary practices. The 2005 EU Food Security Programme undertook testing of almost 8,000 wells in 380 localities; these were then colour-coded according to the water quality. Information on the quality of wells was also posted in public places. Despite such interventions, some villagers continued to use their nearest well, whether polluted or not. Schools and kindergartens are similarly affected.

Wastewater: The situation is equally dismal. Although 31%⁵ of the population is connected to a centralised sewerage system, the effective figure is 24% because only four existing urban wastewater treatment plants currently operate satisfactorily. For the rest, untreated effluent is discharged directly to surface waters. In the rural areas, 23% of the population have improved pit latrines while 46% generally use simple pit latrines with direct percolation to shallow groundwater aquifers, which are, in turn, used through the wells for drinking water supply.

The European Water Initiative (EUWI) has been particularly active in the last few years in the Republic of Moldova, which has been a leading country of the Eastern European Caucasus and Central Asia (EECCA) component of the EUWI. The main goal has been to establish a National Policy Dialogue in the Republic of Moldova, involving all relevant authorities and stakeholders, with a view to facilitate the implementation of the principles of the EU Water Framework Directive and the UNECE Water Convention. This includes progress towards integrated water resources management (IWRM) with a link to financing issues. Two international organisations, OECD and UNECE, are acting as strategic partners of the EU in this effort, respectively for water supply and sanitation and IWRM. In the National Policy Dialogue on water, specific objectives were drawn up to be achieved through the implementation of policy packages on IWRM, including (a) new governmental regulations on wastewater discharges; (b) action plans to achieve safe drinking water supply and adequate sanitation and (c) plans for the establishment of river basin management authorities and river basin councils.

The outcome is that the Government is now committed to improving the situation in the sector and has adopted or prepared the following main documents:

- *2007 Strategy of water supply and sewage disposal in communities of the Republic of Moldova*

This National Water Strategy superseded a previous 2005 Decree for approval of Plan for Water Supply and Sewerage in localities of the Republic of Moldova up to year 2015. The aim of this Strategy was to create a national policy for water and sanitation and to identify priority interventions to be undertaken. It sets out specific medium and long-term objectives for the period 2008-2025 which include, inter alia, decentralisation of services, promotion of market economy principles, extension of networks, tax incentives for private investors in infrastructure, promotion of sustainable development, environmental protection and social partnership. Investment budgets for each timeframe are also stated and potential sources of financing are described. Feasibility studies have been carried out in ten urban areas only. There is no national water masterplan which would provide an overview together with prioritisation and proper costing of the water and sanitation needs on a national level and which would allow technical designs for all new projects to be elaborated in a consistent and efficient manner. The Strategy prioritised short term investments for the period 2008-2012 in the amount of 3,600 MMDL (approximately €257 million) and for long-term investments for the period 2012-2025 as 23,000 MMDL (approximately €1.643 billion).

- *2008 Draft Water Law*

⁵ 35% of households are connected to a piped water supply system; 31% of households are connected to a centralised sewerage system; *Source: Statistical Yearbook of the Republic of Moldova 2007.*

⁶ Regulation No. 934 (2007) 'Sanitary Norms on Drinking Water Quality' which is aligned to EU and WHO standards

⁷ 80% of shallow and deep wells tested had at least two chemical constituents exceeding minimum acceptable standards. 30% had high E.coli counts. *Source: Moldovan National Centre for Public Health Sanepid 2007*

A Draft Water Law 2008 has been drawn up to harmonise Moldovan water policy with the EU Water Framework Directive 2000/60CE (the latter seeks to implement among others the Drinking Water Directive 98/83 EC, the Urban Wastewater Treatment directive 91/271EEC and the Nitrates Directive 91/676 EEC). The Draft Water Law sets out the rights to use of water, principles of water management and measures for prevention of pollution and makes provision for the introduction of regulatory impact assessment. It also seeks to consolidate the provisions of the 2005 Decree and the 2007 Strategy and proposes the establishment of a Water Fund which would be used to support the development of water supply and sanitation projects. The Draft Water Law has not yet been promulgated which means that the current legal framework (Water Code 1993) does not fully take account of the EU water-related legislation to which the Republic of Moldova seeks to converge. However, this convergence, in particular to the Water Framework Directive, has already been initiated within two EU-funded regional projects 'Environmental Collaboration for the Black Sea'⁸ and 'Water Governance in western EECCA countries'⁹.

- *Other water-related legislation*

The current national legal framework consists of a set of legislative documents, including: Water Code No. 1532-XII of 22.6.1993; Law "On Ecological Expertise and Environment Assessment" No. 851-XIII of 29.5.1996; Law "On Public Communal Services" No. 1402-XV of 24.10.2002; Law "On Drinking Water" No. 272-XIV of 10.2.1999; Law "On Payment for Environment Pollution" No.1540-XIII of 25.2.1998; Law "On Environment Protection" No.1515-XII of 16.6.1993; Law "On Sanitary and Epidemiological Support to Population" No.1513-XII of 16.6.1993; Law "On Protection Zones and Belts of River and Water Basins" No. 440-XIII of 27.4.1995; Regulation No. 934 of 15.8.2007 "Sanitary Norms on Drinking Water Quality".

In the context of the National Policy Dialogue established by the EU Water Initiative, the Steering Group approved in June 2008 three recent interrelated policy packages for priority action and where appropriate implementation:-

- Order of the Government of the Republic of Moldova on wastewater discharges from municipal sources, adopted by the Government on 10 October 2008;
- Plan of implementation of sustainable water management, safe drinking water and adequate sanitation in the Republic of Moldova;
- Draft order of the Government of the Republic of Moldova on the composition and work of river basin councils, finalized in October 2008 and circulated among governmental entities to prepare approval by the Government.

- *National Development Strategy 2008-2011*

The NDS 2008-2011 has as its main objective the improvement in the quality of life for the population by creating the conditions for sustainable economic growth. It sets specific targets for the sector which generally are in line with those given in the National Water Strategy i.e. (i) to enhance the health of the people by providing a greater level of service to consumers; (ii) to reduce the risk of pollution to and depletion of groundwater sources; (iii) to achieve a more rational use of water supplied and (iv) to increase the efficiency of the water utility companies. It also includes the Millennium Development Goal¹⁰ to reduce by 50% in 2015 the number of people without access to safe water supply and sanitation.

- *Challenges*

The sector is hugely under-developed and faces many challenges. Infrastructure, a significant part of which dates from the 1970s, is collapsing and emergency repairs cannot keep pace with the breakdown in pipes, buildings and mechanical installations. The sector was effectively decentralised in 2000¹¹ when

⁸ http://www.ecbsea.org/en/moldova/Legislative_component/?pid=578

⁹ <http://www.euroconsult.mottmac.nl/files/page/217222/EasternEuropeWaterGovernance.pdf>

¹⁰ The 2015 target was calculated at 65% having safe access to water supply by 2015 (from the base level of 38.5% in 2002). This represents a 20% increase (720,000 persons) from the current level of 45%. The 2010 target was given as 59% which represents an increase of 14% on the current figure or 504,000 extra persons. The population with access to sanitation systems (incl. simple sewerage, septic tanks and improved pit latrines) was to increase from 41.7% in 2002 to 51.3% in 2010 and 71.8% in 2015 (360,000 and 720,000 extra persons respectively).

¹¹ Decree No. 530 dated 06 June 2000

responsibility for the provision of water and sanitation services was devolved to the individual municipalities and their subsidiary water works ('Apa Canals'). Fragmentation has resulted with too many Apa Canals (42) that often have uneconomically small exploitation areas. The capacity of these waterworks to properly manage the water supply and wastewater systems is weak. Their organisational/institutional structure is often poor, management practices are outdated, salaries and morale are low and there is little or no training. The municipalities are the effective owners of the Apa-Canals. The setting of tariffs is approved by the Municipal Councils which often keep water tariffs well below the maximum affordability ceiling of 5%¹² of household income. Revenue barely covers operational and maintenance costs.

Almost no financial assistance is currently available from the State budget. Many Apa-Canals have accrued significant debts over a number of years arising from the non-payment of operational liabilities and serious cash flow difficulties arise in the repayment of such debts. Even with an increase in tariff to the ceiling 5%, works beyond the renewal of existing infrastructure are a challenge (due to deterioration of assets which lead to permanently raising fixed prices if no cost-cutting programmes are implemented). This is why state support in the form of substantial grants and/or soft-loans is urgently required, as many municipalities must first overcome the huge underinvestment in the networks in the last two decades. In the few instances where external financing has been secured, local design agencies are still working to old Soviet (GOST) norms and standards which results in oversized infrastructure and significant under-utilisation of scarce investment funds. Total revenue generated by Apa-Canal Chisinau in 2007 was 360 MMDL while 2007 revenue of the other 41 Apa-canals was 170 MMDL¹³ (total 530 MMDL - 38 MEUR approx.).

The Government states that it fully supports the National Water Strategy and in order to achieve the planned levels of improvement, investment of 5.6%¹⁴ of the annual budget would be required for the next 20 years. In this regard, NDS 2008-2011 includes a figure of 2,800 MMDL (200 MEUR) for the sector. However, only a meagre sector allocation of 18-22 MMDL/a has been foreseen in the Medium-term Expenditure Framework 2009-2011 which is inadequate¹⁵. As very low amounts have been budgeted for 2008-2009, public allocations to the sector for 2010 and 2011 should realistically be of an order of magnitude of at least 1,000 MMDL or 71 MEUR per annum (including Apa Canal budgets and external financing). It is an express condition of this SPSP that the amount of the state contribution to the sector will increase to these levels, as specified in the Policy Matrix.

2.3 Eligibility for budget support¹⁶

The most recent IMF document is the Fourth Review of Poverty Reduction and Growth Facility and dates from September 2008 (IMF Country Report No. 8/320). It states that GDP growth for 2008 and 2009 is predicted to be 8% and 9% respectively and demand is projected to remain strong. (However, the global economic crisis will certainly affect the Republic of Moldova in 2009 and lower these figures, to a yet unknown extent.) Inflation peaked at 16 percent in April 2008, up from 13 percent at end-2007, eroding

¹² Affordability surveys indicate that most households consider 5% of the household budget is the maximum expenditure for quality water and sanitation services. This is currently a generally accepted ceiling in the Republic of Moldova.

¹³ The Republic of Moldova Apa-Canals Association Annual Report 2007

¹⁴ Financing Water Supply and Sanitation in the Republic of Moldova. EAP Task Force 2008. If EU Directives are included then the state contribution rises to 6-7%

¹⁵ Public spending for water and sanitation is split into different lines in the MTEF. The 2009 MTEF component for water and sanitation is 173 million MDL (98.8 million MDL for 2010 and 81.6 million MDL for 2011) from external sources and 9.27 million MDL from the state budget. There are no other direct budget investments other than the World Bank National Water and Sanitation Project. There are several budget lines and special funds that can finance water investments, but which are limited in size: The Regional Development Fund contribution was stated to be 156 million MDL for all infrastructure sectors in 2009, 138 million MDL in 2010 and 200 million MDL in 2011. The Ministry of Local Public Administration has not yet decided the allocation of these funding among the sectors. The National Environment Fund provision in respect of water and sanitation is 20.6 million MDL (2009), 22.9 million MDL (2010) and 24 million MDL (2011).

¹⁶ In the context of the global economic crisis, macro-economic situations, in many countries, are subject to frequent evolutions. The Republic of Moldova is not spared by these evolutions. The present text, drafted in November-December 2008, may not fully reflect the macro-economic situation of the country at the time this document is officially adopted. Considering the importance of macro-economic stability for the eligibility for budget support operations, the European Commission will at all times, during the implementation of this programme, pay very close attention to this issue

the real interest rates. The current account deficit widened in 2007, but remains more than covered by foreign direct investment and long-term debt flows. The main driver was a shift from remittances (which appear in the current account) to foreign investment (capital account). Debt is broadly sustainable. In conclusion the IMF-report states that ' the Republic of Moldova's outlook is positive. Growth is set to recover strongly, agriculture is expected to rebound...and foreign direct investment is picking up and replacing remittances as the main driver of the economy'.

Progress in most fields of PFM has currently been identified in the July 2008 PEFA study, which sees improvements concerning eleven indicators compared to the first PEFA exercise in 2006, with only two negative developments (aggregate expenditure out-turn compared to original approved budget, legislative scrutiny of external audit reports) over the last two years. The biggest improvement in overall scoring was in payroll, procurement and internal controls. A new Public Procurement Law was enacted that brings public procurement in line with international standards and practices. The April 2008 European Commission Progress Report on implementation of the EU-Republic of Moldova ENP Action Plan mentions general progress in PFM and public procurement, although further improvements are recommended. The Government has also prepared a Strategy for the Development of Public Internal Financial Control (PIFC) in January 2008. A central harmonisation unit, responsible for PIFC throughout the entire public sector, was established. With the support of technical assistance, a code of ethics for internal audit, an internal audit charter and internal audit standards were also produced. Missions by DG BUDG in February 2008 and DG ECFIN in March 2008 came equally to positive conclusions.

The Republic of Moldova was deemed eligible for budget support under ENPI NAP 2007 and 2008, and a number of macro-economic indicators have improved since these decisions were taken. The IMF and World Bank judge the Republic of Moldova 's macroeconomic policies as being sufficiently well-defined and implemented, as evidenced by four positive reviews of the on-going IMF Poverty Reduction and Growth Facility in the last years, and the preparation of a new World Bank Poverty Reduction Support Credit. The World Bank is supporting capacity development of the public sector through a Public Financial Management operation as well as through a Multi-donor Trust Fund for Public Administration Reform. The World Bank is also working with DfID to support the capacity development of the Court of Accounts. The analysis of PFM shows that a programme of reform for the improvement of PFM is under implementation. As a result, the allocation of sector budget support seems justified with respect to the EC eligibility criteria, although much still remains to be improved concerning aspects of practical implementation of the reforms.

2.4 Lessons learnt

Previous EC budget-support in the Republic of Moldova shows that a permanent dialogue between partner administrations and EU is needed to ensure the achievement of the agreed policy matrix. From water-related projects of other donors it is evident that the institutional capacity in this specific sector is relatively weak and that the implementation capacity of the municipalities to properly manage the water supply and wastewater systems is limited. There are numerous small Apa-canal which result in fragmentation of service supply and low economies of scale. Strengthening and partial reorganisation of Apa-Canals is urgently required. Existing water tariffs are often too low to even cover operation and maintenance costs. Tariffs should be set at realistic and sustainable levels to enable for investment in the supply networks thereby ensuring the long term viability of the systems.

The World Bank's phase I Pilot Water Supply and Sanitation project found that cost-efficient investments are possible in Moldovan towns, and that rural water investments can be implemented through interlocutors such as the Moldovan Social Investment Fund for reasonable costs.

Commencement of the 2nd phase World Bank National Water Supply and Sanitation Project had been delayed awaiting signature by the Ministry of Finance of a specimen agreement with one of the beneficiary municipalities. Although the project is expected to commence shortly, close cooperation with international financial institutions that are active in the sector is vital to ensure that that no substitution of IFI-loans with EC-budget support grants occurs.

Furthermore, in response to the Paris Declaration on aid effectiveness and subsequent Accra Conference of September 2008, the Commission developed a strategy for the implementation of recommendations made at these events, with a view to, inter alia, increase Partner Government Ownership (Demand driven approach and/or country managed programmes); enhance Capacity Building with a strong result orientation; enhance donor coordination; increase the quality and make better use of available technical expertise; and avoid the creation of parallel PIUs.

These elements are being taken into account whenever applicable in the various stages of the project cycle.

2.5 Complementary actions

International actors in the Moldovan water sector are the EU, World Bank, EBRD, EIB and bilaterals. Should the USA decide to make the Republic of Moldova fully eligible for its Millennium Challenge Account, up to USD 70 million could be made available for irrigation measures in 2009 or 2010 potentially over-stretching the management capacities of Apele Moldovei. EBRD has co-financed the USD 60 million Chisinau Water Services Rehabilitation Project in 1998 and the Republic of Moldova is still challenged to repay this loan. The EU Food Security Programme included an extensive water component. TACIS funding of €3 million is available for an innovative constructed wetland wastewater treatment plant at Orhei, with a similar scheme foreseen by WB/GEF in Soroca. EIB, EBRD and the EU Neighbourhood Investment Facility are considering the possibility of a joint water project in the amount of 10 MEUR each. NIF is also considering funding a feasibility study for sewerage improvements in Chisinau. Germany through its agency KfW has expressed an interest in financing improvements to Chisinau water and wastewater management. The World Bank has completed its successful Pilot Water and Sanitation Project in five cities and arranged feasibility studies in ten cities. It has launched a new programme of USD 14 million (see Par. 2.4 above). Kuwait has provided a credit of USD 7 million for rehabilitation of water supply and sanitation infrastructure in seven towns¹⁷. Austria and Switzerland fund the rehabilitation of water supply and sanitation networks in towns and villages in the centre and south of the country (Hinesti, Nisporeni, Straseni, Ungheni, Calarasi, Ialoveni and Leova). The Czech Republic is funding a new wastewater treatment plant in the town of Leova. Construction of water supply and sanitation infrastructure in the city of Ceadir Lunga has been grant-aided by Turkey in the amount of USD 10 million. The National Environment Fund has supported small-scale sanitation projects with €3.5 million over the last 3 years. The Moldovan Social Investment Fund has implemented local water supply and sanitation projects. In addition, a TACIS project was launched in 2008 on water governance in Western EECCA, including the Republic of Moldova, in close coordination with the National Policy Dialogues established by the EU Water Initiative. The project seeks the establishment of river basin organizations/river basin councils for transboundary waters (Republic of Moldova/Romania and Republic of Moldova /Ukraine), keeping also into account adaptation to climate change.

2.6 Donor coordination

In April 2008, a new Policy and Aid Coordination Department was established within the Prime Minister's office. This department coordinates the government's contacts with all major donors and prioritizes and channels funding requests to them. It will play a major role in assuring implementation of this SPSP. A donor coordination mechanism already exists in the Moldovan water sector, with the participation of the European Commission, Switzerland, Austria and the Czech Republic and less regularly, by the local representations of the World Bank, EBRD and US/MCC. However, until now this is intra-donor coordination only. As one of the conditions for this sector-budget support, the European Commission will insist on the establishment of a regular (e.g. bi-monthly) water-sector donor-coordination with the relevant Moldovan authorities, under the leadership of a Moldovan Minister and co-chairmanship by a donor representative (similar to existing government-donor groups in the Moldovan social protection and health sectors).

3. DESCRIPTION

3.1 Objectives

The main objectives of this SPSP are to support the Republic of Moldova in the implementation of reforms in its water and sanitation sector and to finance priority activities of high-relevance for the Moldovan population and environment. This will be achieved in close co-operation with other international development partners active in the water supply and sanitation sector.

3.2 Expected results and main activities

The expected results of the SPSP correspond to the mid-term objectives of the National Water Strategy 2007. These are (i) a significant speeding-up of the implementation of the Strategy by supporting the

¹⁷ Hinesti, Stratsui, Taraclia, Carbolia, Sarata Vece and Riscani

Moldovan authorities in better targeting its interventions and (ii) sustainable improvements in the connection of the Moldovan population to safe drinking water and sanitation infrastructure, in line with relevant EU standards and the country's MDG and National Development Strategy goals in the sector (65% of population connected to safe drinking water and 72% to sanitation systems by the year 2015¹⁸). The SPSP would also assist in reducing nutrient discharges to the Black Sea basin through support to the construction of wastewater treatment plants. Priority investment¹⁹ shall be made to reduce risks to public health e.g. by reducing excessive levels of nitrates and microbial contamination in rural drinking water supplies through fencing of well zones, removal of rubbish heaps, public information campaigns and by protecting groundwater in rural areas, e.g. through simple latrine improvement programmes and/or, improved quality of wastewater discharged to rivers by ensuring primary treatment as an interim measure at locations of future urban wastewater treatment plants,

Specific activities to be financed with support of this SPSP shall include inter alia:

- Preparation and implementation of a drinking water emergency programme targeting the most urgent water pollutions from a health point of view in rural and urban areas of the Republic of Moldova
- Pilot investment projects through indirect centralised management
- Targeted TA to Moldovan partner institutions in the sector that will enable them to speed-up and implement sector reforms, such as sector planning workshops, advice in tariff and investment cost recovery calculations, and on-the-spot trainings in cooperation with professionals from EU countries
- Preparation of a water supply/sanitation master plan and prioritised national investment programme
- Promulgation of new Water Law and secondary legislation in view of convergence with EU-acquis
- Construction/rehabilitation of urban water supply infrastructure to provide 100,000 new connections
- Construction/rehabilitation of urban sewer systems to provide 60,000 new connections
- Construction/rehabilitation of four “secondary” wastewater treatment plants each having capacity greater than 10,000 population equivalent
- Construction of new rural water supply infrastructure to provide 100,000 new connections
- Construction of new rural wastewater infrastructure to provide 60,000 new connections
- Replacement of water supply pumps and associated equipment in 30 pumping stations
- Replacement of wastewater pumps and associated equipment in 20 pumping stations
- Installation of bulk meters at water supply sources in 52 towns
- Provision of leakage detection equipment and training to three regions, North, Central and South
- Institutional strengthening of water-works (training)
- Capacity building of River Basin Organizations and River Basin Councils for the main rivers in the Republic of Moldova, including the Prut and Dniester rivers, to cope in particular with transboundary water management issues and climate adaptation in water management.
- Public awareness campaign (including information packages and updating of the web site of the National Policy Dialogue for the EU Water Initiative, at www.acva.md), especially in rural areas.

3.3 Risks and assumptions

The Government's approach to water governance has been altered several times over the past number of years and it is uncertain whether the existing administrative-institutional arrangement will remain unchanged during SPSP implementation. Furthermore, monitoring, reporting and evaluation are spread over a number of institutions/organisations and reporting structures. This makes it difficult to assess the sector in its totality or to assess the progress against policy documents or against public expenditures. Data availability and quality is a serious issue as significant inconsistencies across the sources have been noted. Other risks include a partial lack of willingness to carry out systematic reforms and possible corruption and interventions with a party-politics bias. The lack of sufficient professional experts at all management levels together with failure to achieve best value for money through competitive procurement practices could also have an adverse effect on the successful implementation of this SPSP. It is hoped, however, that the Republic of Moldova's widely demonstrated political interest towards European integration together with clear, policy-based support from Government will ensure that these risks can be successfully mitigated.

¹⁸ The interpolated values to the end of this programme in 2012 are 61% for water supply and 59% for sanitation – respective increases of 576,000 and 180,000 persons from the current (2008) situation.

¹⁹ As outlined in ‘Environmental Action Programme for Central and Eastern Europe 1993’

3.4 Stakeholders

The main stakeholders involved in the Moldovan water and sanitation sector are as follows: The Parliament is the legislative authority of the State and holds the power of promulgating the laws. The Government Office under the Prime Minister is responsible for ensuring coordination of public policy planning according to the priorities set out in the government programme. The Ministry of Ecology and Natural Resources is responsible for environmental protection, monitoring of water resources and water quality management. It has a staff of only 25 employees and is limited in its capacity. The Ministry of Finance is responsible for securing adequate public financing management related to the WSS sector. The Ministry of Construction and Territorial Development is responsible for all major infrastructural construction works related to WSS sector. The Ministry of Local Public Administration is responsible for policy and planning for the water and sanitation sector on the local (municipality) level. Within the ministry, the WSS sector is not yet of high priority. The State Agency Apele Moldovei is the central administrative authority for water management which is responsible for water management, irrigation and water supply and sewerage on the national/regional level and reports directly to Government. Apa Canals are water utility companies responsible for providing WSS services on the local level. They are subordinated to the local administrative authorities. The Ministry of Health is responsible for water quality monitoring with reference to human health. It has a well developed, equipped and staffed network of regional laboratories carrying out water quality analysis. The Apa-Canals Association includes all 42 Apa-canals and its main role is to represent the latter at the national level. The State Hydro-meteorological Service monitors background air, water and soil quality to assist in the formulation of pollution control measures. It has a comprehensive network of sampling station covering all major water courses. The State Geological Agency is in charge of compliance, monitoring and control of ground waters. The State Ecologic Inspectorate within the Ministry of Ecology is responsible for issuing licenses for water use. The State Engineering Institute Acvaproiect is subordinated to 'Apele Moldovei' and assists in designing main WSS-related policy documents and strategic documents. The State Engineering Institute IPROCUM is also subordinated to 'Apele Moldovei' and primarily assists in designing WSS projects. NGOs in the Republic of Moldova involved in the water sector include REC the Republic of Moldova, Environmental Movement of the Republic of Moldova and Eco-TIRAS. The most relevant authorities and stakeholders have been regularly involved in the context of the National Policy Dialogue set up by the EU Water Initiative, including its Steering Group, which is under the lead agency of Ministry of Environment and Natural Resources.

3.5 Crosscutting Issues

This SPSP will have a significantly positive impact on the Republic of Moldova's **environmental sustainability**. Ground water and river water quality will both be significantly improved as a result of increased treatment of municipal sewage and elimination of polluting point discharges. Air quality will also be improved and odious smells will be reduced.

Gender: Issues related to gender are essential for the effectiveness and sustainability of water and sanitation programmes. The monitoring and evaluation system should, to the degree possible, collect information on use of, and responsibility for water and sanitation facilities as well as participation in decision making on a gender disaggregated basis. A component of this SPSP still under discussion is a special programme to improve sanitation standards in a number of selected rural schools and VET colleges in the rural part of the country. Most of these schools have no reliable water supply and only rudimentary sanitation. Students have little appreciation of the linkage between poor water and health. With limited investments, the situation could be significantly improved, leading to more comfortable, dignified and secure conditions especially for teenage girls. A possible indicator for the Policy Matrix will be proposed by UNICEF before the start of this programme.

The SPSP will lead to an improvement in **governance** by ensuring the participation of all major stakeholders in the sector, including NGOs, consumer associations and media. Consultation mechanisms will be designed to be fully inclusive and public sector accountability will be enhanced. A website of the foreseen Government-Donor sector working-group will inform about specific measures and will increase transparency of the sector.

Access to a safe supply of drinking water is a basic **human right**. This SPSP will increase the access of the population to safe drinking water and thus enhance the level of human rights within the country.

4. IMPLEMENTATION ISSUES

4.1 Method of implementation

The proposed financing modalities for this sector budget support are centralised management and indirect centralised management. A Financing Agreement (FA) will be signed with the Government of the Republic of Moldova. Funds earmarked for budget support will be channelled to the Moldovan State Treasury following the achievement of agreed conditions for payment.

Besides, an indicative amount of €5 million is foreseen to be implemented through indirect centralised management to carry out pilot projects in small- and medium-sized towns and rural areas that demonstrate EU standards and help the Republic of Moldova fulfil the Policy Matrix of this SPSP. (Costs of evaluation, monitoring and translations for this component shall be taken from the €5 million).

Indirect centralised management is justified for the realisation of the following tasks, which involve delegation of the public authority and particularly of budgetary acts (choice of the beneficiaries of public funds by the implementing partner):

- Award of grants to the Moldovan municipalities for the investment regarding the sewage system and water supply, contracting and control;
- Choice, after the call for tender launched by the implementing partner, of the company that will supervise the works (maitrise d'ouvrage);
- Choice, after the call for tender launched by the Municipalities of Nisporeni and Cantemir, with the full support of the implementing partner, of companies to perform the works;
- Coordination and supervision of other projects in the water sector that are funded by the Austrian, Czech and Swiss governments (the estimated budget of these projects is €15 million for the Municipalities of Nisporeni and Cantemir).

The Austrian Development Agency (ADA) has been chosen as implementing partner in accordance with the conditions set out in the Financial Regulation applicable to the general budget of the European Communities (FR), requiring such a choice to be objective and transparent.

- ADA has been present for a number of years in the water sector in the Republic of Moldova and is already engaged in further funding and implementation in the sewage and/or water sanitation of the Municipalities of Nisporeni and Cantemir.
- ADA was audited in accordance with the criteria set out in Article 56.1 FR.
- Prior local consultation has been conducted with donors and government in Chisinau.
- ADA has signed a memorandum of understanding with the Czech Development Agency on development co-operation in the water sector in the Republic of Moldova, thus meeting the EU objective of strengthening the role of new Member States as new donors.

Therefore the relevant authorising officer considers that the conditions for this indirect centralised management are met and can propose this method of implementation.

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 European Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. No direct EC procurement for works and supplies is foreseen under this SPSP.

4.3 Budget and calendar

The programme budget of €45 million is divided into €37 million for budget support and, indicatively, €5 million through indirect centralised management and €3 million for technical assistance, including evaluation, translation and monitoring. Payment of the €37 million will be made in three tranches as follows: first fixed tranche of €11 million upon signature of the Financing Agreement, in the 3rd quarter of 2009; second variable tranche of maximum €13 million in the 3rd quarter of 2010; third variable tranche of maximum €13 million in the 3rd quarter of 2011. A weighting system for determining the exact amounts of disbursements will be described in the policy matrix to be elaborated and which will become a part of the Financing Agreement.

The foreseen operational duration is, indicatively, 60 months as from signature of Financing Agreement

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 Moldovan Prime-Minister. The Committee will meet at least twice a year. The SPSP

will use a set of MDG- and EuropeAid standard indicators, applied to the Moldovan water sector (see annex). The fulfilment of the Policy Matrix and achievement of the Indicators will be measured on the basis of government data by independent reviewers hired by the European Commission. Alongside this indicators, the disbursement of all instalments will be contingent on the continued progress in (i) macroeconomic and financial policy, conducive to a strong and sustainable economic growth and commitment to implement the measures of the EU-Republic of Moldova ENP Action Plan or successor document related to macro-economic policy; (ii) implementation of PFM reform programme and commitment to further develop measures under relevant articles of the EU-Republic of Moldova Action Plan (art. 40 'Public Procurement' and art. 42 'Sound management and control of public finances'); (iii) implementation of the Government's Central Public Administration Reform. IMF staff reports will serve as a basis for assessing the macroeconomic and financial policy. In order to assess the progress of reforms in PFM, the European Commission will avail itself of the assessments made by its own staff, of the reviews carried out in the framework of WB programs/projects (PRSC, PFM and others) and, if need arises, external technical expertise. The reviews will be coordinated with other donors involved in Budget Support operations, and wherever possible joint reviews will be conducted. The Government will be encouraged to set up an "institutionalized" streamlined monitoring system for MDG-achievement, supported by the international community.

4.5 Evaluation and audit

The three sector assessments which shall be carried out by external consultants prior to the disbursement of the following tranche shall eliminate the need for a mid-term review. Prior to the end of the programme, an external final evaluation will be carried out. The European Commission reserves the right to monitor all programme activities and audit a sample of expenditures related to the implementation of the programme.

4.6 Communication and visibility

All EC-funded activities shall be appropriately acknowledged through the various media. The project can be further disseminated through the website established in the Republic of Moldova in the context of the EU Water Initiative (www.acva.md). All procurement and tender notices in the national and international press shall state that the project is being funded by the European Union. At each project location, large signboards describing the measure and acknowledging the assistance from the EU shall be erected and maintained in position for the duration of the works.