

Strategy for development cooperation with

the Republic of Moldova

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REGERINGSKANSLIET

Government Offices
of Sweden

Strategy for development cooperation with the Republic of Moldova, 2007-2010

Introduction

The Government has approved a proposal to draw up a country strategy for development cooperation with the Republic of Moldova. The country strategy will govern the direction of Swedish development cooperation with the Republic of Moldova during the period 2007–2010. The strategy is based on proposals from the Swedish International Development Cooperation Agency (Sida), supplemented by considerations from the Ministry for Foreign Affairs, views of other ministries involved in development cooperation with the Republic of Moldova, and priorities communicated in the course of continuous cooperation with Swedish counterparts and in talks with Moldovan partners.

Summary

Despite positive economic development since the beginning of the 2000s, Moldova remains the poorest country in Europe. More than a quarter of the population live below the poverty line, primarily in rural areas and small towns. Migration is extensive and contributes to poverty reduction, but also has substantial negative social consequences. The legacy from the Soviet era still determines Moldova's trade pattern, but its political ambitions are now clearly oriented towards the EU. The European Union's relations with Moldova have also been markedly strengthened in recent years. An EU Special Representative for Moldova (EUSR) has been appointed. The EU and Moldova have adopted an Action Plan in the framework of the European Neighbourhood Policy (ENP).

Moldova has been an immediate neighbour of the EU since Romania became an EU member on 1 January 2007. The Moldovan government attaches great political importance to the fulfilment of the ENP Action Plan. During the strategy period, Moldova will also begin to negotiate a new cooperation agreement with the EU in connection with the expiry of the current Partnership and Cooperation Agreement.

The government's tight fiscal policy has contributed to macroeconomic stability. Moldova has entered into a new IMF agreement and its large foreign debt has been rescheduled. However, the Russian import ban on Moldovan wine and other goods, together with a drastic rise in the price of gas, mean that the Moldovan economy has once again been affected by an external shock. The important political and economic reform processes that have been initiated may be hampered.

Sweden is one of the most important bilateral donors to Moldova and a prominent dialogue partner. Our support during the three-year strategy period 2004–2006 has amounted to some SEK 200 million. Sweden has been a major driver for greater development assistance coordination in accordance with the Paris Agenda. This prescribes that cooperation move towards more extensive, coordinated efforts in fewer sectors. Sweden will support the development of closer relations between Moldova and Moldova's alignment to the EU as the best way of helping to reduce the country's poverty in the long term. This will primarily be done by strengthening the alignment of the Moldovan public administration and society to EU institutions, regulatory frameworks, norms and values and by supporting good, democratic social development

in general, increasing the competitiveness of rural areas and reducing vulnerability in the field of energy. The ENP Action Plan should serve as a guideline. Efficient and close coordination with the EU Commission and other EU countries is therefore of key importance.

The volume should increase over the strategy period and amount to approximately SEK 100 million per year.

1. Conclusions from the basic conditions in the country and the country's strategy for poverty reduction

Policy and reforms

Moldova's fifteen years of independence have meant both enormous changes but also great hardship for the country's population. Moldova is entirely dependent on Russia for its energy supply and the Russian market is Moldova's largest export market. Policies have been ambivalent and its dependence on Russia has had a major impact on the country's political orientation. Russia's tendency to exploit this dependence, together with the strong growth occurring in the new EU member countries, has contributed to a reorientation of Moldovan policies. There is now an insight that the future lies in closer relations with the EU. Moldova's ambition to rapidly deepen its relations with the EU is today the driving force behind the reforms being implemented.

The EU perspective has been integrated into Moldova's first poverty strategy, the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) which expired in 2006. It has now been extended for another year. The strategy was formulated in 2004. Action plans have been drawn up for priority areas, but the link between policy and budget planning needs to be strengthened. Closer ties with the EU were further reinforced through the ENP Action Plan which was adopted in 2005. The overall goal of this Action Plan is a significant level of integration of Moldova with the EU, even if the possibility of membership is seen as a more distant prospect. The EU Commission regularly monitors implementation of the ENP Action Plan. Up to now, Moldova is considered to have made progress with regard to its macroeconomic policies and management of public finances, but problems remain with regard to the connection between policy and budget planning, and to the limited links with institutional capacity. In general terms, there is over-optimism about being able to implement reforms rapidly. Other shortcomings involve the fight against corruption, respect for human rights, freedom of the press and reform of the legal system.

Transnistria

Moldova's development is hampered by the prolonged frozen conflict with the separatist region of Transnistria, over which the Moldovan government does not have control. Transnistria functions de facto as an independent entity, but has not formally been recognised by any country. The local leadership, supported by Russia, controls the entire society and opposition is suppressed. The deadlock between the parties creates uncertainty, with a negative impact on the business climate and growth. Transnistria is a centre for extensive smuggling and other illegal activities. In December 2005, the EU set up a monitoring mission, the EU Border Assistance Mission (EUBAM), which supports the Moldovan and Ukrainian border control agencies along the frontiers. This monitoring is considered to be effective and appears to have put some pressure on

Transnistria. However, Russia exerts economic pressure on Moldova, and political changes in Ukraine and in Moldova's relations with Russia reinforce the uncertainty.

The poverty situation

Moldova has had annual GDP growth of almost 7 per cent between 2000 and 2005, but despite this is Europe's only low-income country. Emigration, primarily to Russia and the EU region, has become a survival strategy for poor men and women. Some 20 per cent of the working age population are outside the country. Roughly one-third of those who emigrate are women. Migration is often illegal and because of this is associated with major risks. This applies both to emigration to EU countries and to Russia and other countries. The number of Moldovans falling victim to trafficking in human beings and sexual exploitation remains high. Migration has enormous social consequences and inadequate social security systems increase the burden on those remaining.

The proportion of poor people has more than halved between 1999 and 2004. Today it is estimated that a quarter of the population cannot meet their basic consumption needs. The majority of the population live in rural areas, and it is here and in small towns that poverty is most widespread. In 2005, poverty increased again in the rural areas. Particularly affected are children, people over the age of 75, families with many children, people with disabilities and people with low levels of education. Wages are low. As many as 68 per cent of the poor live in households where the head of the family has an income as a self-employed person (often a farmer) or is in paid employment. Households whose heads of families are women are somewhat less poor, probably because they often receive money from a man working abroad. Health care, education and social services are prioritised by the government and expenditures for these sectors have increased, albeit from a very low level.

Women have relatively high employment rates, but the lack of a state social security system often leads to a double workload. The proportion of women in higher positions in politics and the business sector is low, but compared with other countries in the region, Moldova is a positive example in several areas. Despite the fact that stereotyped gender roles affect men more severely in some respects, gender equality is mainly regarded as a women's issue. The availability of sex-disaggregated statistics is incomplete.

The economy

Moldova's GDP grew by 4.6 per cent during the first nine months of 2006 and is expected to be more than 4 per cent for the whole year. In 2005, growth was more than 7 per cent.

Since independence, Moldova has suffered from a number of external economic shocks, and the country took large loans in the 1990s. In 1999, two-thirds of the central government budget went to debt servicing. Moldova has now reversed this trend and the tight fiscal policy of recent years has contributed to macroeconomic stability. A new programme with the International Monetary Fund (IMF) in combination with sensible debt management enabled Paris Club debt consolidation in 2006.

In the past year, Russia has increased its political and economic pressure on Moldova. Throughout most of 2006, Russia has blocked all imports of Moldovan wine, etc, which has been a serious blow to the country's economy. In addition, Gazprom has raised the

price of gas from USD 80 to USD 170 per thousand m³ over the past year. Romania and Bulgaria became EU members on 1 January 2007 and because of this Moldova's free trade agreements with these countries came to an end. According to an IMF assessment, these factors combined will mean that from 2007, there will be a considerable deficit in Moldova's balance of payments. To avoid this leading to a policy of austerity in the form of budget cuts and higher interest rates considerable support is required, both from the World Bank, the IMF and the EU, as well as from bilateral donors. Such commitments were made at the Consultative Group meeting for Moldova on 12 December 2006.

The legacy from the Soviet era is a fragmented economy with little economic integration within the country. Economic growth is primarily concentrated to the two largest cities, Chisinau and Balti. Growth is largely driven by remittances, which contribute 30 per cent of the country's GDP. This money largely goes to consumption. In order to channel funds to productive investments, a simplified regulatory framework for entrepreneurship is required.

Moldova is a member of the World Trade Organisation (WTO) and its exports to the EU are covered by tariff preferences, but the tariffs for Moldova's most important export products continue to hamper increased exports to the EU. The EU's share of exports has increased to 30 per cent. This is mainly due to the drop in exports to Russia and the increase in volume is marginal. Even with more advantageous conditions for trade with the EU, efforts will be needed to overcome barriers in the form of inadequate norms and standards, deficient distribution networks, poor marketing and quality.

Agriculture is the country's largest sector, responsible for some 20 per cent of GDP, 60 per cent of exports and 40 per cent of employment. Because of structural barriers, the potential of land reform and privatisation has not been fully used. Low productivity and low wages lead to the population of rural areas moving, either to the cities or abroad. The depopulation of rural areas has both social and economic effects in terms of a lack of people of working age and the loss of skills.

Moldova is struggling with extensive environmental problems such as soil degradation and soil erosion. In addition, almost 50 per cent of the population lack access to clean water. Up to now, limited resources have prevented reforms in the environmental field. The energy sector is strongly politicised and the legal framework is difficult to apply. Energy prices paid by consumers are fixed at political level do not cover actual costs and are not sufficient to finance necessary investments. Higher prices would, however, have a considerable impact on many poor people.

Democracy and good governance

In all essentials, Moldova is a democracy and the consolidation of the democratic system continues, albeit at a slow pace. In the 1990s, the country was characterised by political unrest and short-lived governments, but since 2001, political life has been more stable. The parliamentary elections in 2005, which were won by the Communist Party, were considered by international observers to have been largely free and fair, although there was some criticism that the opposition did not have the same access to the media as the government in office.

The country is centrally controlled and the sitting President's real influence over policies exceeds his formal mandate. The multi-party system works satisfactorily but there is no tradition of sustainable government coalitions and the opposition is divided. Local autonomy is poorly developed. At the same time, the 900 equivalents of municipalities in the country are too weak to exercise the role that greater local self-government would require. The issue of enhanced local self-government and the redistribution of local government areas into larger entities have been discussed, but other administrative reforms have had higher priority.

The capacity of the central government apparatus is generally very limited and the administration has difficulty in retaining skilled staff, particularly those in key positions. Corruption is a widespread phenomenon in Moldova. The problem is particularly serious i.a. in the judiciary system, and in the customs and police services. One of the reasons is low wages in the public sector. The central public administration reform initiated in 2005 includes reform of both staff recruitment and salary settlement procedures. The political will to fight corruption has been strengthened and the Transparency International Corruption Perceptions Index confirms that the situation has improved somewhat. However, corruption continues to be a serious social problem.

In formal terms, the judiciary system is independent of the executive and legislative powers, but its application and implementation are often criticised. Moldova has ratified most instruments concerning human rights, but much remains to be done before human rights are respected in practice. The law prescribes equal rights, irrespective of ethnicity, gender or disability, but it does not, for example, include sexual orientation.

There is relatively large scope for civil society and the media to work, but independent media are subject to pressure and in practice the government controls all state-owned TV and radio. Access to independent information, particularly in rural areas, is limited. The number of registered NGOs is large, but their capacity varies. There is a view, widespread among the general public and among NGOs, that room to influence policies is limited.

2. Other policy areas and the coherence policy

Swedish political cooperation with Moldova is primarily conducted through the EU and multilateral organisations such as the World Bank, the Organisation for Security and Cooperation in Europe (OSCE) and the Council of Europe. One of the main principles of Sweden's Moldova policy is to support the country's ambition for greater integration with the EU. This primarily takes place through the EU's Neighbourhood Policy (ENP) and the Action Plan drawn up in the context of the ENP. Several of the priority areas in the Swedish coherence policy are relevant to relations with Moldova. Expanded trade is a condition for growth, particularly against the background of Moldova's relations with Russia. Negotiations with regard to an asymmetrical trade agreement with the EU have begun. However, the prospects of favourable terms for Moldova are considered to be small, as the majority of the country's export goods are potentially sensitive for EU producers. Moldova is trying to attain greater legal opportunities for labour migration to EU countries. Visa rules are a barrier to closer ties with the EU. Sweden is one of the countries in the EU pressing for simplified visa regulations.

Many foreign embassies cover Moldova from Bucharest, as does Sweden. Sweden provides support to strengthen Moldova's management of its extensive migration. Experience from efforts in the field of migration should be linked with national policies and Sweden's policy in the EU.

Up to now, Sweden's bilateral relations with Moldova have been limited and there is little trade between the two countries. The Swedish Trade Council office in Bucharest now also covers Moldova. The Swedish National Audit Office has begun long-term cooperation with its Moldovan counterpart, which is complementary to other Swedish efforts. Thus far, visits between the two countries and political dialogue have been limited, but in June 2006 Moldova opened an embassy in Stockholm, and there is mutual interest in expanding contacts.

3. Cooperation with other donors

The number of major donors is limited. Total development assistance amounted to 5.85 per cent of Moldova's GNI in 2005. Sweden is the largest bilateral donor among the EU countries, which means a special responsibility for donor coordination. The new EU member countries have increased their commitment in Moldova and several now have bilateral development cooperation and exchange of experience with Moldova. These former transition countries have experience that is relevant to this country, and Sweden should seek opportunities to make use of the experiences of, for example, Swedish development cooperation with Estonia, Latvia and Lithuania. The USA is the largest bilateral donor, even if its support is declining. Depending on the results of anti-corruption efforts, Moldova may, however, qualify for support from the Millennium Challenge Account. There is an ongoing process to develop greater focus and division of labour among bilateral donors.

The EU has gradually increased its support in the context of the ENP and a new seven-year strategy, the European Neighbourhood and Partnership Instrument (ENPI) will come into force in 2007. It is estimated that annual financing from this instrument to Moldova over the first four years will amount to an average of EUR 50 million, with a budget of EUR 40 million in 2007. This support will be focused on three areas: democracy development etc (25–35 per cent), regulatory reforms and administrative capacity building (15–20 per cent), and poverty reduction and economic growth (40–60 per cent). The EU is also expected to give Moldova EUR 45 million in macrofinancial support in 2007–2008. In addition to this, there may be funding from a new facility with institutional support and from the EU Investment Fund, for the countries in the Neighbourhood Cooperation. When the EU increases its presence in Moldova, it is expected to become a more active cooperation partner. Sweden should make use of its flexibility as a donor and seek opportunities to cooperate closely with the EU Commission, within the framework of the ENP Action Plan. This applies both to coordination at the preparatory stage, to co-financing and to increased dialogue on central structural issues. The EU Commission's new instrument, the ENPI, will not include sufficiently large resources to achieve a thorough alignment of Moldovan society to the EU.

Of the EU Member States, Sweden, the United Kingdom and the Netherlands give extensive development assistance to Moldova. The British Department for International

Development (DFID) strategy extends over the period 2005–2008 and has a budget of around £2.5 million per year. Prioritised sectors are pro-poor economic growth, support to public administration and conflict resolution. The DFID is very oriented towards co-financing, such as the delegated partnership in the social sector with Sweden. Together with the Netherlands, the DFID will give budget support linked to the World Bank Poverty Reduction Support Credit (PRSC). In 2006 the Netherlands also gave project support amounting to approximately EUR 6 million per year, targeting three sectors: democratic governance, small poverty-oriented projects and the health sector.

In the last ten years, the European Bank for Reconstruction and Development (EBRD) has financed 41 projects, with a total budget of EUR 200 million. Focus has been on infrastructure and financial institutions. The new strategy for 2005/2006 focuses on the development of the private sector and infrastructure. Moldova is included in the EBRD Early Transition Countries Initiative. The Bank's activities will also be otherwise expanded during the strategy period. This will give more opportunities for Swedish cooperation with the Bank. The European Investment Bank (EIB) will soon extend lending to Moldova, focusing on energy, transport and environment.

The World Bank has supported Moldova since 1992. In 2005, the Bank's commitments amounted to USD 12 million. Total commitments to active projects amount to USD 149 million. The World Bank strategy for the period 2005–2008 has three priorities: i) poverty reduction through support to economic stability, growth and employment; ii) improved access to social support and minimisation of environmental risks; and iii) improvement of administration and anti-corruption measures. The year 2007 will see the start of the World Bank's first budget support to Moldova, the PRSC, amounting to a total of USD 30 million for a three-year period. Sweden is co-financing several ongoing reform projects.

In May 2006, the IMF approved a new three-year programme, the Poverty Reduction Growth Facility (PRGF), amounting to USD 117 million. The programme is targeted at macroeconomic stability, including reforms of the tax system, the pension system and the financial sector.

The United Nations Development Programme (UNDP) is currently drawing up its new strategy for 2007–2011, which will probably be targeted at three areas:

i) institutional support and citizen participation; ii) access to good social services (including the health, education and social insurance areas); and iii) regional and local development. Most UN bodies are represented in Moldova. Sweden's cooperation has primarily been with the UNDP, in the field of public administration, and with UNICEF in the field of social services.

The United States Agency for International Development (USAID) has an annual budget of some USD 15 million. USAID's three strategic goals are: i) economic growth, focusing on the agribusiness industry and enhanced competitiveness; ii) democracy and institutional support, targeted at the local government level; and iii) programmes in the health sector (tuberculosis, HIV/AIDS and hepatitis C). Moldova has also been approved for the Threshold Programme of the Millennium Challenge Corporation (MCC), which is focused on anti-corruption. Depending on Moldova's performance, it may qualify for full support from the MCC in 2007.

Switzerland today has an annual development assistance budget for Moldova of 2.5 million Euro, which will basically remain the same in the next three years. The main focus are “employment and income”, which includes vocational education and training, microfinance and local economic development, and “social development” which includes public health reforms in mother-and-child health and mental health as well as rural water and sanitation and rehabilitation of social institutions.

4. Experience from and results of previous cooperation

General issues

During the previous strategy period 2004–2006, the aim of the cooperation was to support the country’s efforts to create conditions for reducing poverty and increasing prosperity. Efforts were targeted at three areas: democratic governance; sustainable pro-poor economic growth; and the prevention of social exclusion and promotion of public health. The annual volume of assistance increased from just over SEK 50 million to some SEK 80 million.

The results analysis shows that Sweden’s support is in line with Moldova’s development strategy. With a few exceptions, the results have been good. Experience shows that dialogue and ownership at policy level, even in small projects, are vital for the sustainability of initiatives. Over the period, efforts have been made to increase harmonisation, to concentrate on larger, more long-term initiatives and to strengthen national ownership. Up to now, experience has been very positive with regard to ownership and sustainability. The increasing share of co-financed initiatives has also contributed to creating a platform for dialogue, both with the government and with other donors. Sweden has been an important force behind greater donor coordination, which e.g. has resulted in a common code of conduct in accordance with the Paris Agenda, and other progress.

Sida has initiated a delegated partnership with the DFID. However, this has so far not led to a reduction in the amount of work. Sweden’s strong role in Moldova suggests that there should be no more delegated partnerships, since Sweden should be active in sectors where we can play a role as a partner in dialogue.

The support of Sweden and other donors has mainly been given in the form of capacity development. Moldova’s limited central government budget and lack of capacity has, however, hampered the implementation of important reforms.

Sector-specific assessment

Sweden is today one of the major donors in the democratic governance sector. The adoption of the ENP Action Plan, better donor coordination and a improved reform climate have led to positive developments in this sector. Reform policies have been promoted through close cooperation between the government and donors. Sweden has established strategic cooperation with other donors, notably the World Bank. Up to now, Swedish support has contributed to strengthening the system for capacity building in public financial management and the development of a strategy and functional analysis for the central public administration reform. A unit for educating civil servants has been set up. Together with other donors, a study of public financial management has been undertaken. Sweden has also funded the implementation of a national Population

Census. This initiative was monitored by the Council of Europe and is considered to have been conducted professionally. The results have provided an important basis for the elaboration of the country's development policy.

Support to civil society has been effective, particularly with regard to human rights and election monitoring in 2005. A small change in a positive direction can be discerned, for example, with regard to the attitude towards lesbian, gay, bi- and transsexual (LGBT) people. Sweden's support to non-discrimination measures contributed to information campaigns and round-table talks on LGBT-related issues, and an annual gay pride festival. A local NGO has also set up a service centre for students with disabilities and has undertaken information campaigns to improve the situation of disabled students and change society's attitudes towards disabled people. Ongoing initiatives in civil society are building further on positive experience and have been clearly linked with other initiatives in the field of democratic governance.

There have been positive results in the social sector with regard to the legal framework and a number of local projects offering alternatives to institutionalised care of children. Sweden's contribution to the UNICEF Child Protection Programme has resulted in a National Strategy for the Protection of Children and Families, and an action plan to implement the strategy. This programme has also achieved very good results with regard to integrating disabled children in the regular school system. Legislation for the protection of children at risk has been drawn up, but has not yet been presented in Parliament. Sweden has also contributed to a financial assessment of child care services, which is an important basis for reforming institutional care. Sweden has also supported capacity development of the National Council for the Protection of the Rights of the Child, which has resulted in important policy reforms, such as minimum standards for child protection services and a policy for the legal treatment of minors. Within the framework of the Social Investment Fund, regional pilot projects have increased access to social care services and contributed to reducing the number of children in institutions. Meagre financial resources and high staff turnover, however, mean that it will take time to make these services sustainable and to transfer ownership and funding to national systems. Sweden has initiated a delegated partnership with the DFID in this sector, where there are several donors present.

In the area of sustainable pro-poor economic development, Sweden has significantly increased its support in 2006 via initiatives in the field of energy and continued efforts for rural development. Swedish support has, however, been fragmented and the description of the area of activities far too broad. Greater concentration should be undertaken to enable more long-term efforts. This applies, for example, to efforts in rural development and decentralized district heating in cooperation with the World Bank, which have had good results and have provided an important basis for future efforts. When the district heating project is completed in 2008, there will be heating in 50 schools and 25 hospitals and medical centres, at a reduced cost by 30 per cent. The project for the development of the private sector in rural areas has created 700 companies, almost 60 per cent of which are non-agrarian. Sweden has co-financed a policy-oriented research report "Economic Policies for Growth, Employment and Poverty Reduction" as part of the background work in drawing up the country's Economic Growth and Poverty Reduction Strategy Paper (EGPRSP)

Swedish support to the management and renegotiation of Moldova's large foreign debt has contributed to Moldova being given an equivalent of USD 90 million in debt relief in the Paris Club negotiations. Sweden's support to the cadastre sector has been evaluated and found to be both relevant and effective. A database containing real estate registers has been set up and a new agency has been established with regional cadastre offices located throughout the country. According to an evaluation in 2003, efforts in the labour market and vocational education and training fields have been found to be relevant, but badly coordinated. A final, coordinated initiative to build up a more flexible and demand-driven labour market policy was therefore begun in 2005.

Sweden has systematically tried to work with cross-sectoral issues such as EU integration, the prevention of corruption, gender equality, migration and Transnistria. The EU perspective has been an intrinsic part of almost all areas. Sweden has systematically integrated gender equality in ongoing programmes and has made gender equality a prioritised dialogue issue, both with the government and in the donor group. Among other things, Sweden has taken the initiative for a joint working group between the government and donors. The result can be clearly seen with regard to national ownership, but skills in integrating gender aspects in national development plans need to be reinforced. A more extensive programme funded by Sweden was therefore initiated in 2006. Direct initiatives have also begun in the fields of migration and anti-corruption. Under the present political conditions, it has not been possible to realise the ambition to include Transnistria in Sida's efforts.

5. General considerations

Swedish development cooperation is to be governed by Moldova's own priorities expressed in the ENP Action Plan and concentrated to areas where there is a strong will for reform and a capacity to implement changes.

Closer relations between Moldova and the EU

Moldova's clear ambition to establish closer relations with the EU is fundamental to its development cooperation. As the largest donor among the EU countries, Sweden should work to support Moldova's endeavours towards greater integration with the EU in particular, and contribute with initiatives that can enable the country to implement the ENP Action Plan. Not only is the central public administration reform of central importance to closer relations with the EU, it will also enable the achievement of results in other areas. Support to good, democratic governance should continue to have high priority. Sweden should continue to emphasise the rights perspective so as to support the development of a pluralistic society. The security policy situation is sensitive and development is hampered by the unresolved conflict with Transnistria. For this reason, support to the development of civil society in Transnistria should be considered.

Greater regional differences in the country

Poverty has a clear geographical dimension, with the opportunities of people living in rural areas being particularly curtailed. Improved living conditions in rural areas are a fundamental condition for slowing down migration and combating its social consequences. A more productive agricultural sector, a sustainable energy supply, greater decentralisation, a stronger civil society and an improved business climate are key areas for economic development in rural areas.

Greater sector concentration

Experience shows that good results are conditional on policy dialogue, a long-term perspective and cooperation with other donors. A clear division of responsibilities between donors and an explicit focus make it easier to implement projects effectively, both for the partner country and for the donors. In the view of this, a phasing-out of a number of areas is proposed for the strategy period.

In the social sector, Sida has initiated a delegated partnership with the DFID which will run until 2009. Payments may be stopped earlier, however. Sweden has been one of the major donors to the sector, but the EU and other donors have increased their commitments, which means that Swedish support will be phased out. Sweden will continue to monitor developments in the sector and the EU Commission's work on social issues. In HIV/AIDS, Sweden is neither a large donor, nor an established dialogue partner. The Global Fund and UNAIDS are increasing their commitment and Sweden should be able to leave this area in 2007. It is important to combat trafficking, but here too, several other donors are active. Focus is being shifted to preventive measures by working with the root causes of migration. Further areas to phase out are the labour market and vocational education (in 2008), debt management (2007 or 2008) and cadastre (in 2009).

6. Objectives and orientation of development cooperation

The objective of Swedish development cooperation with Moldova is to support the development of closer relations between Moldova and the EU and implementation of the ENP Action Plan, as a way of promoting economic development and poverty reduction. This creates possibilities for poor people to improve their conditions of life. This focus for development cooperation is entirely in line with the wishes of the Moldovan government.

Support is to be designed in accordance with the Paris Declaration on aid effectiveness in close collaboration with other donors. A special initiative for closer cooperation with the EU Commission and other EU countries will be undertaken. The use of national systems, both for implementation, monitoring and evaluation, is to increase.

Support is to comprise three main areas: good and democratic governance, strengthened competitiveness in rural areas and reduced vulnerability in the field of energy. Distribution among these three main areas should be 40–60 per cent, 20–30 per cent and 15–25 per cent respectively. Tripartite cooperation is to be encouraged.

Good and democratic governance

The objective of cooperation in this area is a democratic social climate that is upheld by more effective public institutions and a more dynamic civil society that fosters pluralism and a democratic political culture.

This will be achieved by:

- strengthening the capacity of public institutions for democratic and effective governance,
- increasing possibilities for citizens to demand accountability,
- strengthening civil society, and

- increasing women's participation in the decision-making processes of society.

Closer alignment with EU structures and norms will require extensive reforms in Moldova. Sweden should continue to support the ongoing major reform processes in the public administration, together with i.a. the World Bank, the EU and the UNDP. This should take place through continued support to the country's public administration reform and to improvements in public financial management. Initiatives to strengthen Moldova's skills in EU issues will be implemented. Given the right conditions, Sweden should consider support to a reform to increase local self-governance.

Sweden's support to civil society should continue in order to strengthen its role as the promoter of pluralism and a democratic political culture, and to increase poor people's opportunities to influence politics and demand accountability at central and local government levels. Part of this support should be used to strengthen the independent media and to prevent and draw attention to corruption. Initiatives related to gender equality and LGBT issues must continue to be included in Swedish support to the sector. Particular attention should be given to strengthening women's participation in, and influence on the decision-making processes of society. The importance of work based on sex-disaggregated statistics should be emphasised. Possible initiatives in Transnistria should be channelled through civil society.

Strengthened competitiveness in rural areas

The objective of cooperation in this area is an improved business climate that promotes rural development through better contacts between enterprises, access to credit and greater integration of domestic markets.

This will be achieved by:

- increasing the integration of domestic markets,
- increasing business activities in rural areas and small towns, both in agrarian and non-agrarian industries,
- increasing access to credit, and
- supporting the trade policy area.

Moldova needs a business climate that provides favourable conditions for the development of rural areas. Sweden will continue to support development in rural areas and small towns by providing support to advisory services, creating networks between companies and supporting greater access to credit. Together with the World Bank, Sweden already has a long-term commitment to the field of rural development. This provides the conditions for a more intensive dialogue on the business climate and the conditions for rural development. Supplementary initiatives to strengthen the business climate and improve export opportunities in cooperation with the EBRD and the World Bank may also be considered. Diversified exports and greater trade with the EU countries are very important for the country's economic growth and stability. Initiatives in the field of trade policy should therefore be implemented.

Reduced vulnerability in the field of energy

The aim of cooperation in this area is a more sustainable energy policy which will lead to reduced vulnerability in the field of energy.

This will be achieved by giving support to

- strengthening the conditions for developing a policy for sustainable energy supply, and
- increasing energy efficiency.

In the field of energy, political and administrative reforms are needed, as well as considerable investments. Initiatives to increase energy efficiency and energy security are important to enable the country to reduce its dependence on energy from Russia. Sweden has great skills in this field, particularly with regard to district heating and energy efficiency. Sweden's support should primarily be focused on strategic measures linked to policy and institution building. This may apply to ways in which district heating can be used more effectively. Cooperation should take place with the EU and multilateral donors. Sweden's capacity to make large bilateral investments is limited, but smaller, strategic investments may be considered, for example, in cooperation with the relevant international financing institutions. In this case, the focus should be on energy efficiency.

7. The volume of development cooperation, budget support, etc

The volume over the strategy period should amount to some SEK 100 million per year, provided that there is progress in reforms and sufficient absorption capacity.

In 2006, Moldova has once again been affected by external shocks, which have led to macrofinancial imbalances. The situation has now stabilised. Further such imbalances over the four-year strategy period cannot be ruled out, however. New needs for financing essential reforms may also emerge. A renewed assessment should therefore be undertaken in the middle of the strategy period with regard to the total volume of cooperation.

The issue of budget support should then also be examined in the context of a possible increase in volume. When this assessment is made, it is very important that there has been clear progress in the public financial management system based on the Public Expenditure and Financial Accountability Assessment (PEFA) study.

8. Dialogue issues

Sweden's position as a major, long-term donor has created good conditions for an active policy dialogue. The political dialogue should be focused on implementation of the ENP Action Plan and other cooperation between the EU and Moldova. In view of the widening gaps in society, greater emphasis should be given to a dialogue on distribution policy and other measures to reduce poverty.

9. Implementation and follow-up

Sida will draw up country plans every year in order to operationalise the strategy. Implementation will be followed up in Sida's annual and half-year reports which provide

the basis of the consultative meetings that will be held between the Ministry for Foreign Affairs and Sida.

In these annual and half-year reports, Sida will describe the extent to which Swedish initiatives have contributed to progress and results with regard to closer relations between Moldova and the EU and implementation of the ENP Action Plan.



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