

Strategy for development cooperation with

the Republic of Moldova

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REGERINGSKANSLIET

Government Offices
of Sweden

COOPERATION STRATEGY FOR MOLDOVA 2011-2014

1. OVERALL OBJECTIVES AND PRIORITIES, OBJECTIVES AND PRIORITIES FOR AID EFFECTIVENESS AND GENERAL DIALOGUE ISSUES

Overall objectives and priorities of cooperation

The overall objective of Swedish development cooperation with Moldova in the longer term is for *Moldova to be well integrated with the EU, including the values of the Union.*

The objective of reform cooperation in Eastern Europe is strengthened democracy, equitable and sustainable development, and closer alignment with the European Union and its basic values. Development cooperation with Moldova will thus contribute to the objective of Sweden's policy for global development: to contribute to equitable and sustainable global development based on a rights perspective and the perspective of poor people.

Implementation of the cooperation strategy will focus on the objective of achieving closer relations with the EU, in line with the Eastern Partnership. Priority in all sectors will be given to contributions relevant to the areas emphasised in Moldova's national development plan, the country's action plan under the European Neighbourhood Policy (ENP) or the equivalent, and associated progress reports.

Swedish development cooperation will be carried out in close dialogue with other donors, in particular the European Commission. Sweden will promote effective coordination with all donors.

Development cooperation with Moldova will, to the extent possible, cover the region of Transnistria. The aim should be for the region to be fully or partly included in contributions that cover other parts of the country, but special contributions that target Transnistria, such as confidence-building measures, should also be carried out.

Objectives and priorities of aid effectiveness

As part of improved coordination and division of labour, Sweden will help implement the coordination plan jointly drawn up by the government and the donors. Under this plan, Swedish support will be aligned with Moldova's priorities and be coordinated with support from other donors, including newer

donor countries. Coordination with the European Commission's delegation in Chisinau is particularly important in light of the European Neighbourhood and Partnership Instrument (ENPI) and the Eastern Partnership *Comprehensive Institution Building Programme* (CIB).

Sweden will increase efforts to make use of the country's and cooperating organisations' systems for planning, implementation and monitoring, and promote transparency and processes that allow participation by local organisations. Public administration support will be supplemented by support to actors that can promote accountability, such as civil society organisations or independent media. Capacity and knowledge development are important components of reform efforts in which Swedish actors play a prominent role. The participation of these actors will therefore be sought. The contribution portfolio will be more focused during the strategy period compared with the end of 2010, which can be achieved by such means as a reduction of the number of contributions.

Where possible and so desired, a programme-based approach will be a starting point when preparing contributions. This may mean that contributions are clearly linked to broader reform programmes, even if it will not always be possible to use a programme-based approach in the strict sense.

The contribution portfolio will be designed so that implementation is as effective as possible. Scope, choice of partners and choice of cooperation and funding forms will contribute to a portfolio of contributions that complement one another and that achieve a balance in which all objectives in the sectors can be fulfilled without the number of contributions becoming too large. Support will be given to contributions that bolster enhanced monitoring of results within the framework of the partners' own systems, including through support to capacity development in this area.

Sweden will, given the right conditions, assume the lead role in the energy sector and conduct a joint donor dialogue in the sector aimed at promoting transparency and mutual accountability.

Objectives of aid effectiveness

- *A more focused contribution portfolio compared with the end of 2010.*
- *At least 50 per cent of the contribution use a programme-based approach by the end of the strategy period.*

General dialogue issues

Moldova's integration into the EU will be the key dialogue issue at both general and sector level. The dialogue will be based on the European Commission's annual progress reports. For the dialogue at sector level, Sweden will promote the establishment of sector dialogue plans.

Corruption is still a major problem in Moldova. Anti-corruption will therefore be a dialogue issue at general, sector and contribution level in efforts to strengthen Moldova's EU integration. The country has adopted several international instruments for combating corruption, but does not apply them adequately. If possible, the dialogue should be based on the country's anti-corruption strategy. The dialogue should take account of the European Commission's annual progress reports and the international anti-corruption instruments ratified by Moldova.

2. COOPERATION SECTORS

Sector 1: Democracy, human rights and gender equality

SECTOR OBJECTIVES

- *Moldovan public administration is more efficient at planning and implementing reforms.*

To achieve the objective, Sweden will continue to support reforms to strengthen transparent, responsible and efficient public administration at both central and local level. In the support of reforms, particular focus should be on capacity development, so that Moldova can independently manage both decision-making processes and implementation of reforms. Support will be provided to the development of mechanisms for transparency and opportunities to influence decisions, accountability and anti-discrimination as part of increasing respect for EU basic values, including fundamental human rights.

Sweden should investigate opportunities to support the tax reform now being prepared to ensure full impact of the public financial management reform. The most recent European Commission progress report on Moldova points at decentralisation as an important area for the country to closer integrate with the EU. Continued support to local self-governance and support to fiscal decentralisation will therefore be considered. Opportunities for strengthening administrative structures for regional development should be investigated. The

support to public administration will seek synergies and links to capacity development within the two other sectors of the cooperation strategy. There is scope for reform within the police service, which should be used and where inter-agency cooperation is considered to be a suitable instrument.

Sweden will actively encourage cooperation between Swedish and Moldovan authorities both within the bilateral programme and within the framework of the EU instrument for institutional collaboration (Twinning). This cooperation includes opportunities to also use the expertise and experience of the newer EU Member States.

Should possibilities arise of involving actors in Transnistria in the cooperation within this area, they will be used, for example in support to the local level. Room should also be given to smaller, yet strategic, contributions.

- *Moldova has a more independent civil society that increasingly supplements and balances other actors in the public and private sectors.*

To achieve this objective, support will be given to civil society actors and the forums in which they operate. Civil society is relatively underdeveloped, even if its impact on decision-making bodies is greater now than was previously the case. Sweden will support an independent, pluralistic and vigorous civil society that encourages social debate and participation in political decision-making processes. Swedish support will aim at giving civil society opportunities to exercise an accountability “watchdog” function and conduct alternative monitoring of, and influence on, the country’s EU integration process. Support will be given to organisations that work with human rights. Particular attention will be given to the potential to support the rights of LGBT people and of ethnic minorities. Since independent media and freedom of expression are of major importance in the democratic development, Sweden will contribute with support to these areas as well. Civil society actors are considered to be the main channel regarding support to actors in Transnistria.

- *A greater number of women hold leading positions in various social sectors, and women’s rights are strengthened.*

To achieve the objective, Sweden will seek opportunities to strengthen and supplement ongoing structural reforms through support to capacity development so that account is taken of the perspective of women. Today, more women than men in Moldova have completed higher education, but women are

still comparatively less established in higher positions in working life and in politics. Support should therefore be provided to help strengthen the role of women in both these areas. Sweden will continue to supplement the European Commission's sector budget support in economic/regional development through support aimed at increasing women's participation in economic development and promoting women's rights and their opportunities to participate in decision-making. Beyond special contributions to strengthen the position of women, it is generally important to take account of a gender perspective when preparing contributions in other sectors.

Collaboration with other donors

Together with Sweden and the UK's DfID, the World Bank and UNDP have been the leading actors in support to administrative reforms, while UN Women plays a prominent role in the area of gender equality. Sweden's role in the sector is expected to increase when the UK phases out its support. The EU's opportunities of becoming a leading actor in the sector are expected to increase, especially when the Commission's *Comprehensive Institution Building Programme* (CIB) within the framework of the Eastern Partnership is being implemented. The CIB takes a holistic approach to support to institutions that are of particular importance to establishing closer relations with the EU. Swedish support will be coordinated with both the CIB and other support provided by the Commission. Sweden will continue to work to ensure that support from the World Bank and the UN is clearly aimed at helping Moldova move closer to the EU. Promoting UN support for closer relations between Moldova and the EU will also help to achieve the objectives of the Swedish organisation strategy for the UNDP in 2010–2013. Collaboration will continue to be sought with new EU Member States, since they often have their own recent experience of transition.

The US, through USAID, will support contributions in local democracy, primarily aimed at small-scale infrastructure investments. The conditions for close cooperation are considered to be limited. Other donors in the sector are Austria, Germany through GIZ, and Romania.

Among bilateral donors, Sweden has well-developed cooperation with, for example, Denmark, which has delegated funds to Sweden within the framework of a partnership for support to civil society. Sweden has long been the lead actor in the area of gender equality and actively works with the issue in the donor group. In the media sector, the US in particular is a major donor with access to good capacity, so that, in terms of effectiveness, it would be desirable if USAID took the leading role.

Sector 2: Sustainable infrastructure

SECTOR OBJECTIVES

- *Moldova has made its use of energy more efficient.*

To achieve the objective, Sweden will support contributions that create conditions for energy efficiency and the spread of sustainable energy alternatives. Sweden will also help bring Moldova closer to the EU's internal market and meet international agreements on reduced climate impact. Consideration can be given to support in examining and evaluating methods to reduce energy consumption and alternative energy sources, primarily in public sector activities, small and medium-sized enterprises, housing and areas where it is expected that the greatest efficiency gains can be realised. Support of this kind can include both capacity building and investment support.

If the *Eastern Europe Energy Efficiency and Environmental Partnership (E5P)* is expanded to include Moldova, Sweden will consider providing funds to the initiative.

- *Moldovan authorities develop and apply EU compatible legislation and regulations in the area of energy.*

To achieve the objective, support will be given to contributions for institutional development and capacity building. This support will be linked to national priorities and assist Moldova in harmonising its legislation with the EU, for example in the *Energy Community Treaty*. An updated energy strategy and the EU's planned sector budget support will be important starting points. Special priority will be given to the use of energy legislation and the related development of the authority for energy efficiency. Sweden's main partner is the Ministry of Economy which, together with its subordinate agencies, is responsible for the energy sector. Other actors in the sector can also be important cooperation partners, such as the National Energy Regulatory Agency and energy companies.

- *Moldova has improved its municipal environmental infrastructure.*

To achieve the objective, Sweden will provide help in meeting environmental requirements under EU directives concerning sewage treatment and waste management. Cooperation between Sweden and international financial institutions is well-developed in Eastern Europe in the municipal service sectors water and sewage, waste and district heating, but has been limited in Moldova. On condition that the government shows a clear willingness to introduce

reforms, cooperation in these service sectors may be considered. Swedish support is expected to cover institutional development, technical assistance support and investments in cost-effective and energy-efficient technology within the framework of joint projects. The Swedish loan and guarantee system for climate and environment may also be used. If solutions to the debt situation of Chisinau's district heating company are found, support for this process may be considered, for example in the form of technical and institutional support. This in turn would allow necessary investments to be made.

Collaboration with other donors

The World Bank is the largest donor in the energy sector. The EBRD, which has mainly been active in electricity supply and water, has now increased its involvement in the area of energy efficiency. If the EBRD Moldovan Sustainable Energy Financing Facility (MoSEFF) produces good results, further support should be possible. The EU is planning sector budget support to the energy sector starting in 2011 and Sweden, in close collaboration, will design a supplement to the EU support. Cooperation should also be sought with international financial institutions such as NEFCO and EBRD for feasibility studies, capacity building and investment support.

Sweden should continue cooperation with the World Bank, primarily within the area of district heating. Sweden should also seek closer cooperation with USAID and other donors in the sector and assume a leading role for increased coordination and division of labour among all actors. Cooperation will be sought with newer Member States where they are deemed to have relevant experience of EU alignment in the area of energy.

Sector 3: Market development

SECTOR OBJECTIVES

- *Moldova has aligned more sections of its trade-related regulations with EU standards.*

To achieve the objective, Sweden will support the establishment of structures and institutions in the area of trade that are in line with EU standards. It is preferable that this be carried out through capacity building in cooperation with a Swedish authority. Consideration may also be given to support via an international organisation. The design of the support will be determined by Moldova's needs ahead of and during negotiations on a deep and comprehensive free trade agreement (DCFTA) with the EU, and implementation

of the related regulations. If possible, the support will target ministries, supervisory authorities and producers so that cooperation is achieved in all segments. Communication between different stakeholders will be promoted to increase knowledge about, and consequences of the DCFTA, among both producers and authorities.

- *Small and medium-sized enterprises and micro-businesses have increased their competitiveness.*

To achieve the objective, support will be given to micro-businesses and small and medium-sized enterprises to support a transition to new regulations and thus increase the business sector's domestic and international competitiveness. The support will be based on Moldova's potential to increase its exports by such means as meeting EU requirements, and to be able to compete with EU producers. The support may include both advice and loans for necessary investments. Moldova's large diaspora opens up possibilities for new trade patterns and trade relations. Consideration should be given to the possibility of promoting initiatives to increase the link between migration, remittances and trade, for example within the framework of the EU-Moldova Mobility Partnership, in which Sweden participates.

Collaboration with other donors

The European Commission will be the most important party in the sector and is expected to assume the main responsibility for trade policy support. Swedish support will supplement the activities funded through the European Commission's CIB programme. There are also other actors in the sector with which Sweden can seek cooperation: the World Bank, the IFC and the EBRD, which primarily work with loans, but also with grants, and USAID, which focuses on the broader trade agenda and business sector development. The opportunity to use experiences of both newer EU Member States and of IPA countries¹, which have come further in the process of moving closer to the EU, will be utilised.

3. AMOUNT

The initial annual amount during the strategy period will be approximately SEK 110 million. A review will be conducted during the strategy period aimed at determining the prospects of a potential increase of the annual amount. The

¹ The countries included in the Instrument for Pre-Accession Assistance (IPA) are the candidate countries Croatia, Turkey and Macedonia, and the potential candidate countries Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo.

amount SEK 110 million represents an increase of approximately 10 per cent compared with the previous strategy period.

4. RISK MANAGEMENT

Uncertainty concerning future political priorities has decreased since the elections in Moldova in November 2010. Nevertheless, Swedish development cooperation should be designed so that risks are spread in case the political priorities change. This means that, in addition to support to the central public administration, support may also be given at local level, as well as to private actors in market development and others. However, in this context it should be noted that the ambition to reduce the number of contributions in Swedish development cooperation, combined with the shift towards larger programme-based contributions, entails a certain risk that, in the event of sudden political changes, parts of Swedish support to Moldova may not be possible to disburse. In such a case, there must be preparedness to adjust the support to the prevailing situation. The breadth of the strategy makes it possible to adjust the support to prevailing conditions.

Parts of public administration have a limited capacity to make use of technical support. This is particularly evident in the area of trade within the Ministry of Economy, the Ministry of Environment and the Ministry of Agriculture and Food Industry, as well as in the area of energy. Swedish support should therefore focus on strengthening Moldovan public administration in key reform areas in a way that ensures the results of the support are sustainable in the long term. Limited contributions to ensure absorption capacity during a shorter transitional period may also be considered. In light of the extensive scope of the CIB programme, the risk also exists that other donors will be pushed aside from relevant areas due to the low absorption capacity. Coordination with the CIB will therefore be important, as will careful consideration regarding the choice of areas included in technical assistance provided by Sweden.

The support for market development has a partially new orientation, which means that new Swedish actors will be involved in development cooperation. This may entail delays, as these actors need to develop contacts with relevant Moldovan counterparts. It is therefore important to have preparedness for different types of cooperation as these contacts take shape. To reduce risks, use will be made of experiences from other countries, such as Georgia, where similar cooperation is being carried out. Support to the extensive central administrative reform contributes to risk management by strengthening capacity.

In the past, Sweden has been a relatively small donor in the energy sector, in which proposals call for Sweden to assume the coordinating role. The area has important political and economic implications, which may entail delays in implementing those parts linked to political decisions. However, Sweden can contribute strategic technical expertise and capacity building, which would provide Moldova with better opportunities to constructively manage energy issues and thus indirectly contribute to risk management. Close cooperation with IFIs is expected to reduce risks in the sector, since they have close dialogue with key actors in the Moldovan public administration.

Corruption is widespread in public administration and in decision-making bodies. Special attention will be given to corruption when both preparing and monitoring contributions so as to minimise the risks. The administrative reform and the support to public financial management are important measures which, in the long term, can contribute to increased transparency and reduced corruption in public administration. Corruption within the police service is considered to be widespread, and Swedish support should particularly act to reduce corruption and increase public confidence in the police service. Special anti-corruption measures will also be considered.

Swedish support is intended to cover the whole of Moldova, including Transnistria. While the region has claimed independence, Sweden and the EU support Moldova's territorial integrity. Contributions in Transnistria require special efforts so that, to the extent possible, delays and other problems are avoided. Support involving municipalities in the Transnistrian region will be designed in close consultation with Chisinau. Sweden should have preparedness to carry out direct supportive contributions in case progress is made in finding a solution to the conflict.

5. POLICY COHERENCE

Sweden's positive attitude towards continued EU enlargement and closer relations between the EU and countries in Eastern Europe has given Sweden high credibility in Moldova. Maintaining Sweden's political involvement in these issues is therefore of great importance to the implementation of the development cooperation. Continuing to give high priority to the objectives of the Eastern Partnership (association agreement, free trade agreements, progress in the area of migration, etc.) will be particularly important.

Moldova is a member of the WTO and benefits from autonomous trade preferences from the EU. Negotiations are expected to begin shortly on a deep

and comprehensive free trade agreement (DCFTA) between the EU and Moldova. Integration with the EU market is a key factor for the practical aspects of closer relations between Moldova and the EU. Agriculture is the single most important production sector of the Moldovan economy. Some 35–40 per cent of the population is employed in this sector. Together with the food industry, it contributes approximately one-third of GDP and half of exports. Diversification and streamlining of agricultural production, combined with real opportunities to export agricultural products and foodstuffs to the EU, will contribute strongly to EU integration. Given that Sweden continues to promote an open EU trade policy that welcomes free trade with the rest of the world – including Moldova – it should be possible to identify positive synergies.

6. CONSIDERATIONS CONCERNING THE DIRECTION OF THE STRATEGY

As one of Europe's poorest countries, Moldova has considerable needs in many areas, both regarding reforms and pure financial support. Three sectors considered to be of particular relevance to the coming four-year period have been chosen in this cooperation strategy. The proposed contributions in the sectors are based on previous experiences and an assessment of Sweden's comparative advantages, taking account of current and future support of other donors active in Moldova. The proposed contributions interact, from different perspectives, towards the overall objective of supporting Moldova's aspiration of greater integration with the EU, while ensuring that the risks involved in implementing the strategy are spread.

Democracy, human rights and gender equality

The experiences of the previous strategy period emphasise the importance of perseverance in public administration reform efforts. The reforms have the common aim of streamlining and bringing decision-making processes, public administration and controls closer in line with EU standards and requirements. Swedish support in the sector of democracy, human rights and gender equality can contribute to better interaction between civil society, the parliament and the party system.

Civil society actors have successfully worked for greater transparency, opportunities for people to influence decision-making processes, accountability and anti-discrimination. Support to, and via, civil society is considered to be most relevant in the sector of democracy, human rights and gender equality, in which the prospects for a broad impact are considered to be the greatest. This, however, does not preclude the possibility that some results can be achieved in

the other two sectors, even if the scope for support to these sectors via civil society is considerably less.

Support to administrative reforms at central and local level, and also to civil society, is considered to be of strategic importance for a number of reasons. EU integration will be promoted and the conditions for combating corruption will be improved, society will be democratised and an awareness of human rights will emerge in public administration and in broad sections of the population.

The assessment regarding the media is that account must be taken of contributions by other donors before taking a decision on Swedish support.

Sustainable infrastructure

Moldova's energy supply is characterised by strong dependence on natural gas imports and low efficiency regarding energy use. In addition, it has major debts for gas imports as a result of non-market pricing, which weakens the willingness to invest in the area of energy.

Support to increase the country's own capability to secure its energy supply through the development of alternative energy sources and energy-efficiency measures is considered to be of key importance to both reduced dependence on energy imports and to the development of domestic goods production. Swedish companies that are active in energy efficiency and municipal environmental infrastructure are considered to have experience and knowledge that could be used in implementing the strategy.

Market development

Increasing the country's production of goods and services and thus generating economic growth is of great importance to development in Moldova. Closer relations with the EU and a deeper free trade agreement are seen as a way to promote investments and employment, and increase domestic competitiveness. The European Commission is planning to give extensive support in the area of trade and has therefore carried out a survey of Moldova's needs and circumstances regarding such support. Since the recommendations resulting from the Commission's survey have not yet been made public, it is considered best to wait until the Commission presents its report before specifying how Swedish support will be designed.

It is deemed that Swedish support related to negotiations on, and implementation of, regulations linked to the DCFTA will benefit Moldova's

efforts in this regard. As a complement to this, targeted support to small and medium-sized enterprises in the form of advice and loans for necessary investments is proposed, aimed at increasing the competitiveness of small and medium-sized enterprises and thus mitigating any negative side effects of the DCFTA.



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