

## PROJECT FICHE 5

Title	Sustainable Regional Development		
Indicative cost	€ 8 Million		
Aid Method	Sector Policy Support Programme – Centralised Management		
DAC-code	43010	Sector	Multisector Aid

Policy dialogue is based on the EU-Moldova Action Plan and on the Partnership and Cooperation Agreement. The ENP Action Plan, in particular, aims at promoting balanced regional development and at reducing economic and social disparities across the country.

### 1. Rationale

#### 1.1. Strategic framework

##### Consistency with MD IP 2005-2006

In the IP, "regional/local development (pilot area)" is clearly mentioned in the table of section 2 "Proposed Tacis actions". Focus is given on rural economy and rural areas. It is also specified that the programme should include components of: "small infrastructure and/or equipment for local communities (municipalities, local administrative units such as "raions"). Finally, the IP stipulates that "in particular, support will be given to the fulfilment of objectives and implementation of actions foreseen in the Action Plan"

##### Consistency with ENP Action Plan for Moldova

Sustainable Regional Development is addressed in two sections:

Regional and rural development, (22) Promote balanced regional development; reduce economic and social disparities:

- o implement measures on regional and rural development, taking as a basis the approach envisaged in the Economic Growth – Poverty Reduction Strategy Paper (EG-PRSP) and using an integrated approach that builds on results of donors' past activity in the country, as well as on EU best practice;
- o develop, plan and undertake specific actions to promote growth of SMEs in regions and in rural areas.

Sustainable development (24) Promotion of sustainable development:

- o take first steps to implement the national long-term strategy on sustainable development
- o complete the establishment of administrative structures and procedures to ensure strategic planning in sustainable development and co-ordination between relevant actors
- o take steps to further improve integration of environmental considerations into other policy sectors, particularly industry, energy, transport, regional development and agriculture.

## 1.2. Lessons learnt

During the transition period insufficient attention was paid to the regional aspect of reforms. In most cases policies were essentially macro-economic. No mechanisms were created to promote the institutional and legal frameworks, which were necessary for the development of regional and local self-administration structures. At the same time, the economic crisis had an extremely negative impact on regional economies. Consequently, inter-regional discrepancies in the socio-economic development of regions grew, especially between the country's capital and the rest of Moldova's regions. There are, furthermore, fairly large differences amongst regions causing substantial territorial differentiation of economic conditions, and the level and quality of population's life. This phenomenon aggravates the problems related to inequality and poverty, because citizens and families' welfare and opportunities are strongly correlated with their place of residence

Most of the policies in the past did not pay attention to regional development and the ones designed (for instance EG-PRSP) do not cover urban development, which is a key component for regional development.

Most impact could be achieved by directing financial resources to the urban centres in Moldova (besides Chisinau) that could serve as growth points and concentration of business and economic development activities both for the regional and rural areas.

## 1.3. Complementary actions

### TACIS

This current project will be the fourth phase of the EC support to regional development (RD) in Moldova and will build on the results of the former projects.

Under the first phase a Policy Advice project (EUR 200,000 - finalized in 2004) assisted the Government in designing a comprehensive regional development policy. Under the second Phase, another Policy Advice Project (EUR 200,000 –from September 2004 to October 2005) should deliver legislation drafted in line with EU principles and a developed national RD strategy. The third phase (EUR 2,000,000 – 2 years from end 2005) is designed to bring an impact at both national and regional levels on four specific spheres of the RD policy and should lead to a National Regional Development Strategy and start of its effective implementation.

Two other related TACIS projects are due to start in the second half of 2005:

- "SME Support in the Rural sector" (EUR 2,000,000) aiming at contributing to the alleviation of poverty by developing SMEs in regions;
- "Support to MEPO/MIDA - Moldova Export Promotion Organisation / Moldova Investment Development Agency – (EUR 3,000,000 – 2 years)"

### UNDP

The key objective of UNDP in Moldova is to help the country attain its Millennium Development Goals. UNDP programme portfolio is focused in 3 areas: Achieving MDGs and Reducing Poverty, Justice and Human Rights, and Local Development.

The main purpose of the Local Development Programme is to capture results achieved under the projects working at local level, with communities and for the communities, extract best practices and disseminate the accumulated knowledge to a wider community of actors and potential partners with the

purpose to increase the impact of planned activities on local and regional development towards localizing the EGPRS and MDGs.

The Local Development Programme treats development of communities as an integrated process, and identifies the following key dimensions of this process: a) Participatory planning for sustainable development, including participatory monitoring and evaluation and dissemination of best practices; b) Economic development; c) Social development.

These dimensions of local development are currently covered by development interventions through the "Local Agenda 21", "Sustainable Tourism Development", "Mesmerising Moldova" and the "Better Opportunities for Youth and Women" projects.

#### SIDA / World Bank

Swedish International Development Agency (SIDA) is implementing two projects co-financed with the World Bank. I) "Social Investment Fund II" is mostly dealing with development of small towns and rural communities and with development of social care services. II) "Rural Investment and Services Project (RISP)" aims at increasing rural incomes and living standards by promoting rural entrepreneurship, agricultural production, economic diversification, and trade in rural areas.

#### SIDA

The Swedish International Development Agency (SIDA) is implementing a project entitled "Local Administration" which mostly is dealing with budgeting and planning information material and purchase of computer for selected towns.

#### USAID

Under its Local Government Reform Project (USD 5 M), USAID expanded training and technical assistance to 100 communities and will provide in-kind assistance to approximately 150 demonstration projects (up to USD 20,000 each) to help communities meet priority areas in their strategic plans including improvements in community infrastructure (water, heat, gas and other municipal services).

#### 1.4. Donor co-ordination

DFID, UNDP, USAID and TACIS agreed to coordinate their activities in the field of regional development. They agreed that concentrating efforts on growth points, especially urban settlements (10-12 pilot projects) could bring more tangible results as the development of regional capitals (regional centres) is expected to bring economic development to surrounding settlements and villages as well. SIDA intends to explore the possibility of providing assistance to regional development and its scale will very much depend on other Donor's interest and willingness to go by a sector-wide approach. All donors agreed that Aid directed to Regional Development need to be up-scaled and more funds be directed into infrastructure projects with an aim to build sustainable social and economic development based in the urban and rural areas of Moldova.

## 2. COUNTRY CONTEXT

### 2.1. Economic and social situation

Current situation: Economic growth reached a high rate of 7.3% in 2004 (real GDP growth was 6.6% in 2003), driven primarily by agriculture (growth

of 20% in 2004 against a 14% decline in 2003), strong external demand for Moldova's goods (foodstuffs, textiles, and skins/hides), and domestic demand. Meanwhile, industrial growth and household consumption growth decelerated evidently compared to 2003. A balanced budget (0.4% GDP surplus) was attained and external debt reduced, but the domestic state debt grew substantially, by 27%. Current account deficit reached 4%, with the significant merchandise trade deficit (30% GDP in 2004) being covered by hefty workers' remittances from abroad.

Short-term prospects: Anticipated are continued deceleration of industrial production, primarily because real appreciation of the Lei to the USD (by 14% in real terms in 2004) undermined Moldova's competitiveness and fuelled import inflows. Economic growth prospects are also at risk in case of poor agricultural harvest and growth of the current account deficit (a decrease of workers' remittances from abroad as a major risk here). IMF projects a deceleration of GDP from 5% in 2005 up to 3% by 2007 as consumption growth slows down.

Longer-term perspectives: For growth to continue and become sustainable, the government has to address the emerging risks swiftly. Reforms envisioned in the EU-MD Action Plan have much potential to improve the business climate and to boost foreign direct investment (FDI) inflows. As well, fulfilment of the adopted EGPRS program provides basis for solid medium term planning of government's finances.

## 2.2. Cooperation policy of beneficiary country

Policy dialogue between Moldova and the EU has been established through the Partnership and Cooperation Agreement (PCA) signed in 1994 (in force since 1998). The PCA provisions have been supplemented early 2005 by an EU-Moldova Action Plan (ENP AP, in the framework of the European Neighbourhood Policy) aiming to establish an increasingly close relationship between EU and Moldova, involving a significant degree of economic integration and a deepening of political co-operation.

## 2.3. Sector Policy

The Government is currently in the process of introducing a regional approach to economic development in order to reduce the growing socio-economic imbalances within the country. The Government's regional policy will form part of its wider policy initiatives to stimulate economic rehabilitation and growth, to alleviate poverty and to ensure social justice. Furthermore, in accordance with its stated foreign policy goal of closer integration with Europe, the Government wishes to adopt a regional policy consistent with European best practise and wants to introduce structures and processes of regional development that approximate those established in the Candidate States in advance of their accession to the European Union.

The RD chapter in the PRSP sets the layout for future government actions in addressing the poverty in the regions. Another recent initiative of the government was the reform in the rural area under which a National Program "Moldovan Village" should be drafted during the coming year.

The first phase of the regional policy will address the major discrepancy in socio-economic performance between Chisinau and the rest of the country.

At this stage in the transition process, regional policy is being targeted, not at redressing regionally-specific problems, but at re-establishing the travel-

to-work zones and revitalising the supply/demand and employment chains between villages, smaller and larger towns. For this reason the first phase of the regional policy will focus upon selected number of towns (excluding Chisinau), as epicentres or nodal points for socio-economic development or so-called "growth points".

Regional policy will be implemented through the introduction of measures in support of:

- institutional and human resource capacity building at national and regional levels to design, manage, implement and monitor measures in support of regional policy;
- improved technical infrastructure (transport and communications networks, public utilities);
- enhanced private sector contribution to Gross Regional Product through the development of the Small and Medium Sized Enterprise Sector and the restructuring and privatisation of State Owned Enterprises;
- diversification of the rural economy;
- expansion and modernisation of the regional labour markets;
- attraction of domestic and foreign investment;
- export promotion and import substitution;
- improved public services;
- enhanced quality of life/sustainable environment and eco-systems.

To consolidate the legislative base of the updated policy, a Law on regional development support was drafted, which set objectives, tools and financial resources for undertaking measures to support territories' development. By adopting this law a legal framework will be created for establishing institutions empowered with development, coordination, and control functions, and ensure that regional state policy promotion is provided with necessary resources.

The Government will establish new institutions and/or redefine the role of existing structures. The implementation of the national policy will be supported by the creation of a number of committees and a National fund for Regional Development (NFRD) will also be created. At the Regional level, Regional Management Committees (RMCs) and Regional Development Agencies (RDAs) will be established in each region (excluding Chisinau). Responsibilities are clearly shared between State and regional bodies.

This new Regional Development policy will also contribute to the introduction of a more administratively and economically decentralised approach to economic renewal and will enhance local democracy through strengthening the institutional and human resource capacities of local authorities and civil society groups in the regions.

Lastly the Medium Term Expenditure framework for 2005-2006 for the implementation of agricultural and rural development is MDL 290 M and the amount needed to collect from donor community is listed as MDL 300.4 M. (1 EUR=16.121458 MDL on 05.04.2005)

### 3. DESCRIPTION

#### 3.1. Objectives

Wider objective:

The project will contribute to the promotion of a balanced regional development.

The overall objective, as defined in the ENP Action Plan, is:

- to reduce economic and social disparities amongst regions.

Specific objectives:

The project will build on results of the AP 2003 "Regional Development Implementing Bodies" project, previous projects in the same field and the AP 2003 "SMEs promotion in the rural area", "MEPO/MEDA promotion" projects. The project will also stimulate, focalise and co-ordinate other relevant EU assistance defined in the Indicative Programme 2005-2006. The purpose of this project is to promote in selected epicentres - "growth points"- a comprehensive approach on sustainable local development. The project specific objectives are:

- to improve and develop local infrastructure (such as transport, telecommunications and other networks, communal services);
- to pave the way for sustainable local development

### 3.2. Operating modality

There shall be one services contract and one or a limited number of works contracts (see details in # 4.1).

Some infrastructure works could be linked to the newly-created National fund for Regional Development or even financed or co-financed through this NFRD, pilot actions being selected on a competitive basis.

### 3.3. Expected results and main activities

Expected results

- Significant part of services infrastructure in the "growth points" (such as transport, telecommunications and other networks, communal services) will be renovated;
- Sustainable local development actions will be under way in the "growth points" (addressing relevant socio-economic issues of the AP 2003-04 and AP 2005-06). These activities shall be co-ordinated with the relevant on-going Tacis projects ("SMEs promotion in the rural area" - AP 2003-04 -, "MEPO/MEDA promotion" - AP 2003-04 - and social, health and education projects of the AP 2005-06).

Activities for the service contract:

- I. Preparation phase: building on results of the AP 2003 "Regional Development Implementing Bodies" and "SME development in Rural Area" projects:
  - Selecting "growth points" -cities / towns and their districts ("raions")-.
  - Designing strategic approach for sustainable local/urban development in the selected
  - Ensuring decentralised management of the selected cities / towns and districts, according to legislative model newly developed
- II. 1<sup>st</sup> component: for each selected zone, building capacity on past experience

- Reviewing possibilities, in particular those related to previous Tacis assistance
  - Adapting to the selected cities / towns and undertaking possible complementary studies
  - Transferring adapted past experience
- III. 2<sup>nd</sup> component: for each selected zone, supervising works for upgrading infrastructure
- Defining and designing works needed for upgrading municipal infrastructure, in one or various domains (such as transport, telecommunications, water and other networks, waste treatment and other communal services);
  - Organising procurement of defined works
  - Monitoring and controlling the works procured
  - Making recommendations for further development
- IV. 3<sup>rd</sup> component: for each selected zone, paving the way for sustainable local development
- Reviewing possible areas of co-operation with other projects of the Tacis IP 2005-2006 (in the enterprise development, social, health, education sectors and other relevant fields)
  - Planning general assistance with other Tacis projects; drafting related ToR for the concerned Tacis projects
  - Organising schedules of interventions and general co-operation with the various stakeholders
  - Monitoring and evaluating the various interventions
  - Elaborating and producing a “Model for Sustainable Development in Moldova”, including decentralised municipal / district management and active participation of civil society
  - Making recommendations for further development

Throughout all phases constant dialogue will be kept with selected municipalities and they will be monitored on progress made in managing public utilities.

Activities for the works contract:

- Procurement of works for upgrading infrastructure and or equipment, in the zones selected by the related technical assistance project.

### 3.4. Stakeholders and institutional capacity

#### Stakeholders

The project partners are the newly created National Co-ordination Committee for Regional Development (NCC) together with the National Agency for Regional Development (NARD).

The main beneficiaries will be Regional Management Committees (RMCs) and Regional Development Agencies (RDAs), the municipalities to be selected, their neighbouring communes and the related district (“rayon”) administrations.

The NCC, NARD, RMCs and RDAs will benefit from the MD AP 2003 “Regional Development Implementing bodies” project to enhance their institutional capacities.

The other main stakeholders will be the Ministry of Economy, the National Fund Regional Development and the organisations involved in municipal services.

#### Ownership

Commitment of municipalities and "raions" will be a criterion of selection for the pilot zones.

#### Sustainability

The municipalities will then benefit of a planned TA project (possibly MD AP 2006) aiming at monitoring their newly developed true sustainable development model.

### 3.5. Risks and assumptions

The Government must enact the Law on Regional Policy and adopt the supporting Regulations, establish the National Co-ordinating Committee and set up, staff and train the National Agency for Regional Development. These are regarded as preconditions for the start-up of the assistance.

It is also conditional to the project that a firm commitment (including financial and/or in-kinds input) of the mayors of the selected cities is given before the end of the inception phase of the related technical assistance project. Overall the selected municipality must show significant administrative capacity and clear commitment to improve it.

The main risk is the need for the preliminary works to be completed or adequately timed before the works can be contracted. Here successful interventions of other concerned Tacis projects are crucial.

In the medium-term, the risks to implementation concern the capacity of the Government and the local authorities to provide or attract (investment/donor support) sufficient funds to implement the Regional Policy and the willingness of the local authorities, private sector and civil society organisations to participate in the implementation of the policy

### 3.6. Crosscutting Issues

The works and linked technical assistance projects will address a wide range of issues such as environment, training and education, SME development, local financial markets, energy, health, social sector. They will follow a holistic approach focusing on sustainable development, which means inter-alia harmonious development between genders.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Centralised Management by EC Delegation.

#### For the technical assistance:

- Restricted tender
- Services contract financed by the Community and concluded in the course of Community cooperation with third countries financed by the general budget of the European Union (Council Regulation -EC, Euratom-

No 1605/2002 of 25 June 2002 and Commission Regulation -EC, Euratom- No 2342/2002 of 23 December 2002).

For small infrastructure and / or equipment:

- International Open Procedure
- Works contract financed by the Community and concluded in the course of Community cooperation with third countries financed by the general budget of the European Union (Council Regulation -EC, Euratom- No 1605/2002 of 25 June 2002 and Commission Regulation -EC, Euratom- No 2342/2002 of 23 December 2002).

4.2. Budget and calendar

The overall budget of the project is MEUR 8, split between works contract(s) for up to MEUR 6.5 and a services contract for the remaining allocation.

The estimated duration of the project is 36 months for technical assistance and 24 months for procurement. The works contract(s) will start around one year after the beginning of the services contract.

4.3. Procurement and award of grants procedures

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

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.4. Performance monitoring

The project will be monitored according to standard procedures.

Project monitoring will be based on periodic assessment of progress and delivery of specified project results and towards achievement of project objectives.

4.5. Evaluation and audit

The project will follow standard procedures for evaluation and audit.