

Donor Assistance to the Republic of **Moldova**



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Introduction

This report on donor assistance to Moldova provides a comprehensive overview of development partners, types of financial aid, and prioritized sectors for development in Moldova.

It describes three major sources of financial flow that comes to Moldova from abroad: donor-funded projects, remittances and foreign direct investment (FDI).

Donors are very active in Moldova. This has led to a major stream of projects that are helping the Moldovan government implement reforms and develop infrastructure projects, reaching and covering the main sectors, including education, health care, transportation, justice, etc.

In this context, the report identifies the largest donor organisations and the most involved governments in terms of sums allocated, but also refers to the existing types of funding provided to Moldova and to those particular sectors where that funding is directed.

Remittances are a major source of financial aid received directly by individuals. Although not spent on projects and reforms, as in the case of donor aid, remittances improve the general quality of life of households receiving them.

The result is that the money boosts the local economy by stimulating demand for products and services, thereby leading to economic growth.

The final source of financial flow analysed in the report is foreign direct investment (FDI). Unlike money provided by international donors, FDI is provided by the private sector and is considered as a significant alternative to remittances, donor aid and credit, as the money is injected directly into the economy.



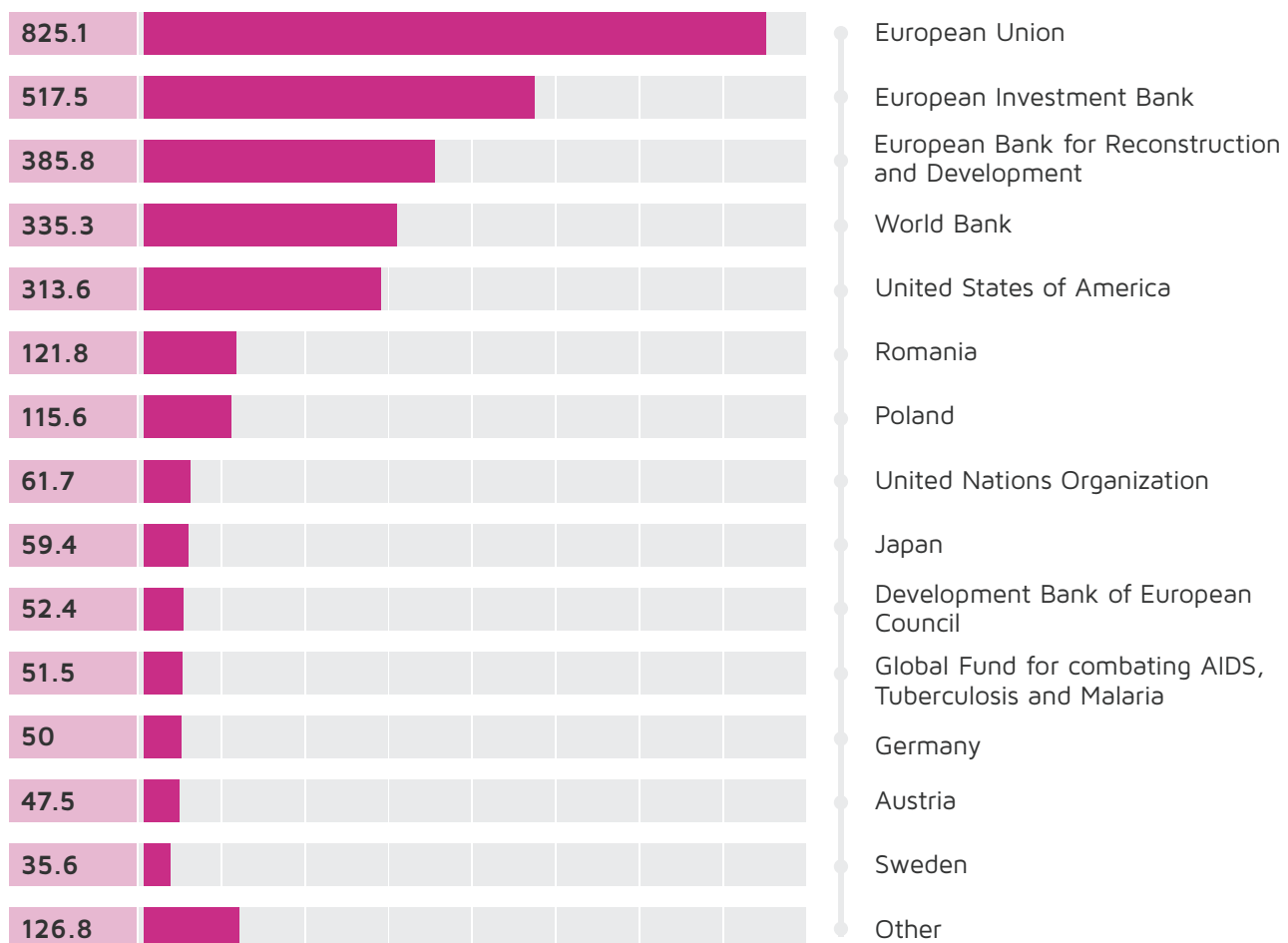
The Cathedral and bell tower

Donor organisations and donor countries

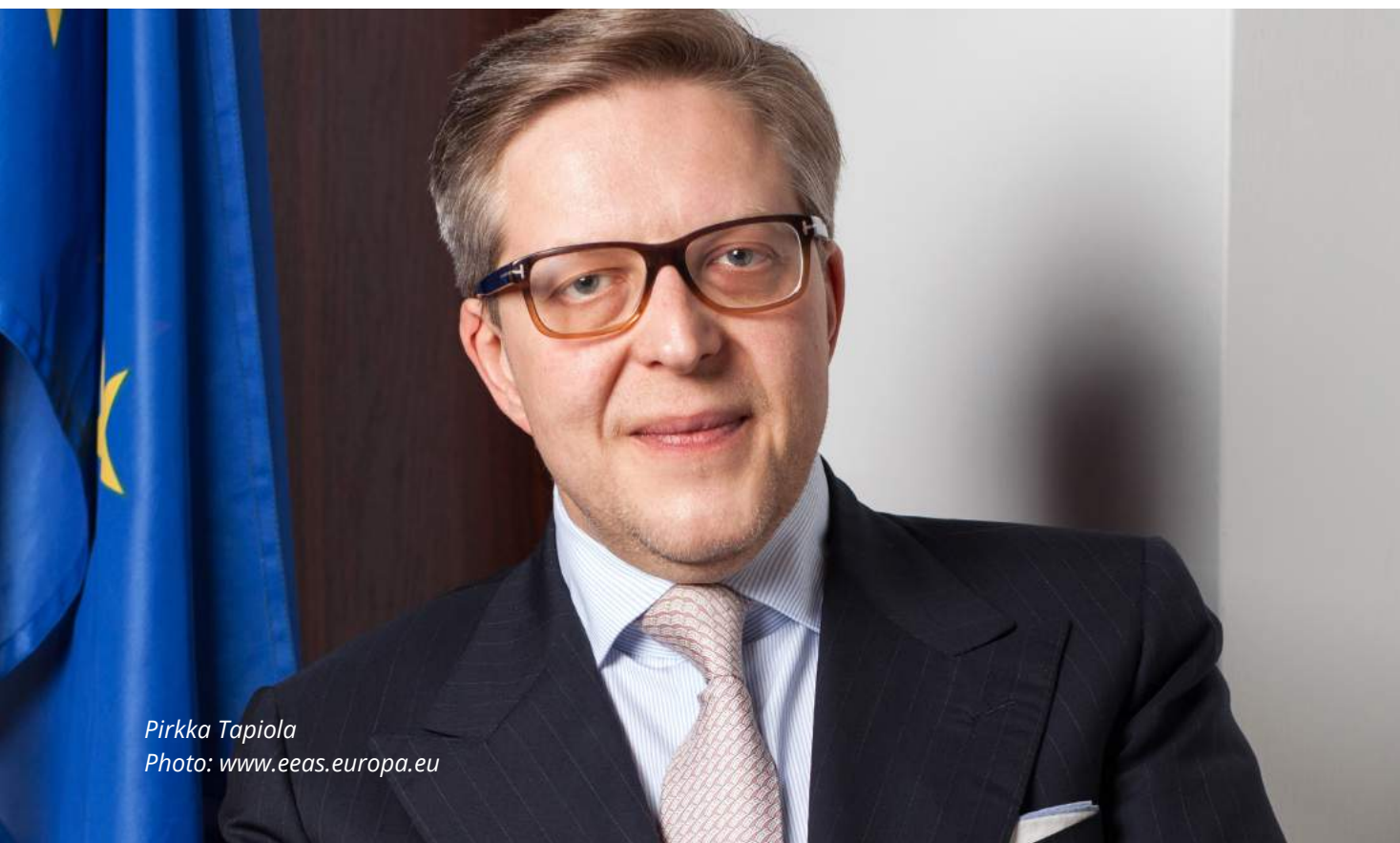


According to the Moldovan Government working agenda, the key priority for achieving a better standard of living for all Moldovans is to develop the country's economy, reduce poverty, increase transparency and work towards integration in the European Union (Moldovan Government Activity Plan, 2016). Based on the amount of funds disbursed, the European Union is the main donor to the Republic of Moldova.

Value of projects funded by donors in Moldova, by main donors, 2010-2015, m €



Source: Aid Management Platform, 2016



Pirkka Tapiola
 Photo: www.eeas.europa.eu

The Moldovan State Chancellery identified 3 big aid-disbursing organisations in Moldova for the period of 2010–2015:

The European Union (EU)

The European Investment Bank (EIB)

The European Bank for Reconstruction and Development (EBRD)

Between 2010–2015 they funded projects with a value of €1.73 bn. Contributions from all other donors combined totaled €1.37 bn. The EU is the main donor and has multiple areas of intervention, including conflict prevention, by supporting projects on both banks of river Nistru, rural development, human development, employment, infrastructure, water and energy supply, trade and regional integration and good governance (Delegation of the EU to Moldova, 2016).

The EIB is focused more on supporting small and medium sized business development in Moldova, in particular, in agricultural sector, by offering lending on a convenient interest rate. An example would be the “The Fruit Garden of Moldova”, the project initiated in 2014 and constituted a €132 m loan to the Ministry of Finance (European Investment Bank, 2014).

The EBRD focuses on “creating an environment that supports private sector activity, promoting European standards across sectors and regional integration to bring domestic producers closer to their markets, as well as developing efficient and sustainable public utilities which have a direct impact on people’s lives” (EBRD, 2016).

Donor organisations and donor countries

Although the United Nations is not one of the top donor organisations as measured by the value of projects, it is still one of the main organisations by the number of projects implemented in Moldova during 2010–2015. There are currently 83 implemented projects, almost the same number as the US, while the EU had the largest number of projects, 291.

The country that contributed the most bilaterally is the **United States**, through the United States Agency for International Development (USAID) and other agencies. A total of €313.6 m was provided by the US during the period of 2010–2015, an amount comparable to the funds provided by a multilateral organisation like the World Bank (€335.3 m).

The second individual government providing a significant level of aid and other funding to Moldova is **Romania**. Although not one of the world's largest and strongest economies, Romania supports Moldova in various areas. In terms of funding, Moldova received €121.8 m from Romania during the period of 2010–2015. Romania shares considerable ethnic and cultural links that also play an important role in the process of providing development assistance to Moldova.

Turkey and Romania implemented an almost identical number of projects 45 and 39, respectively. Turkey focused its financing mostly on the Gagauz communities in the south of Moldova, where the local population share a lot of cultural and linguistic ties with Turkey.

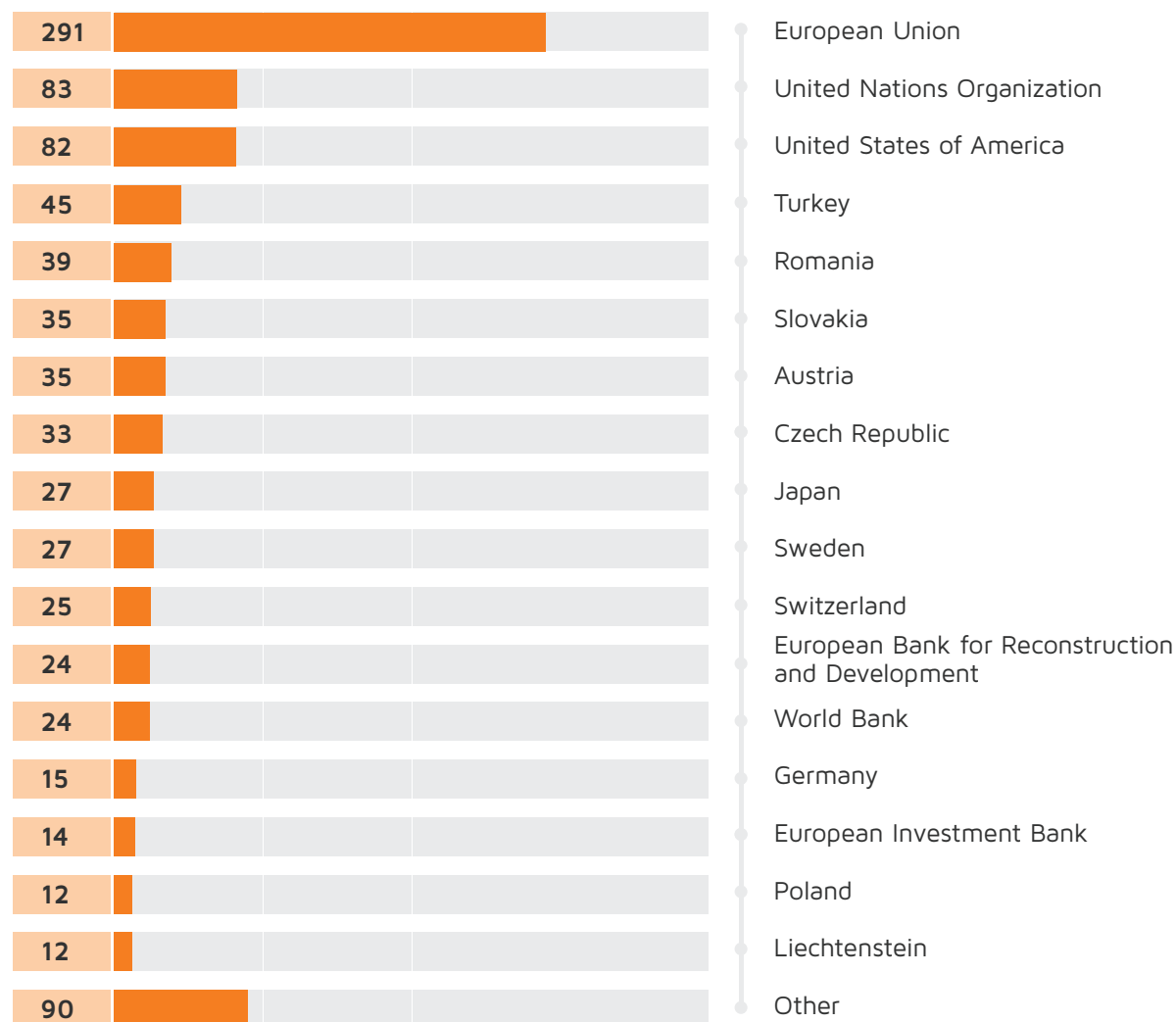
One of its largest projects concerned the construction of a potable water supply system and interurban pipelines in Ceadir-Lunga, a city in the Gagauz Autonomous Territorial Unit (Aid Management Platform, 2014).

Other countries, providing considerable financial support to Moldova include Poland, Japan and Germany.

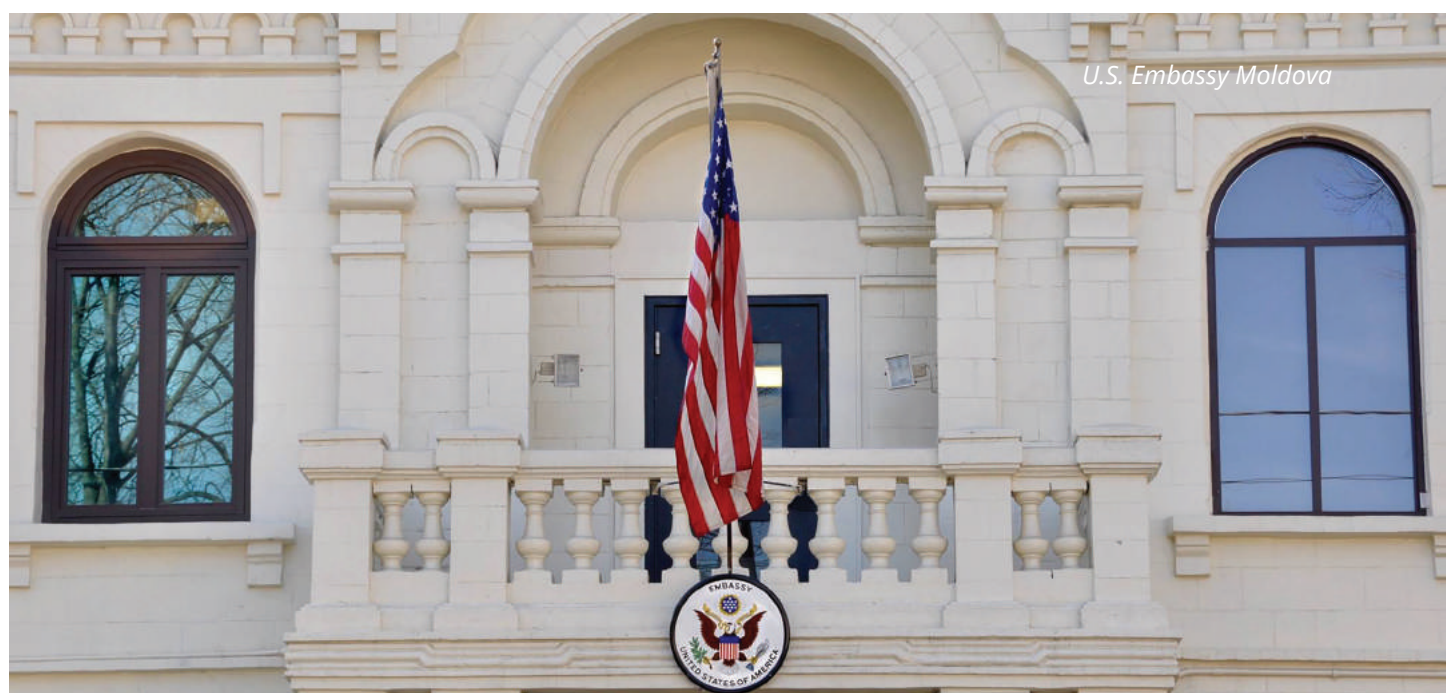


Photo: www.theguardian.com

Number of projects in Moldova during 2010-2015



Source: Aid Management Platform, 2016



U.S. Embassy Moldova

Types of donor financing



Photo: Lisa Haven

There are 3 main types of donors financing common in Moldova:

Grants

In this case the government does not have to reimburse the money received; grants are provided under certain conditions and they reflect more the donor's agenda, rather than the agenda of the government.

Of the €3.1 bn received by Moldova during the period 2010–2015, 51% came from grants.

Investing governmental funds

In some cases, a partial contribution from the central and/or local authorities is necessary to receive a larger amount in the form of grants.

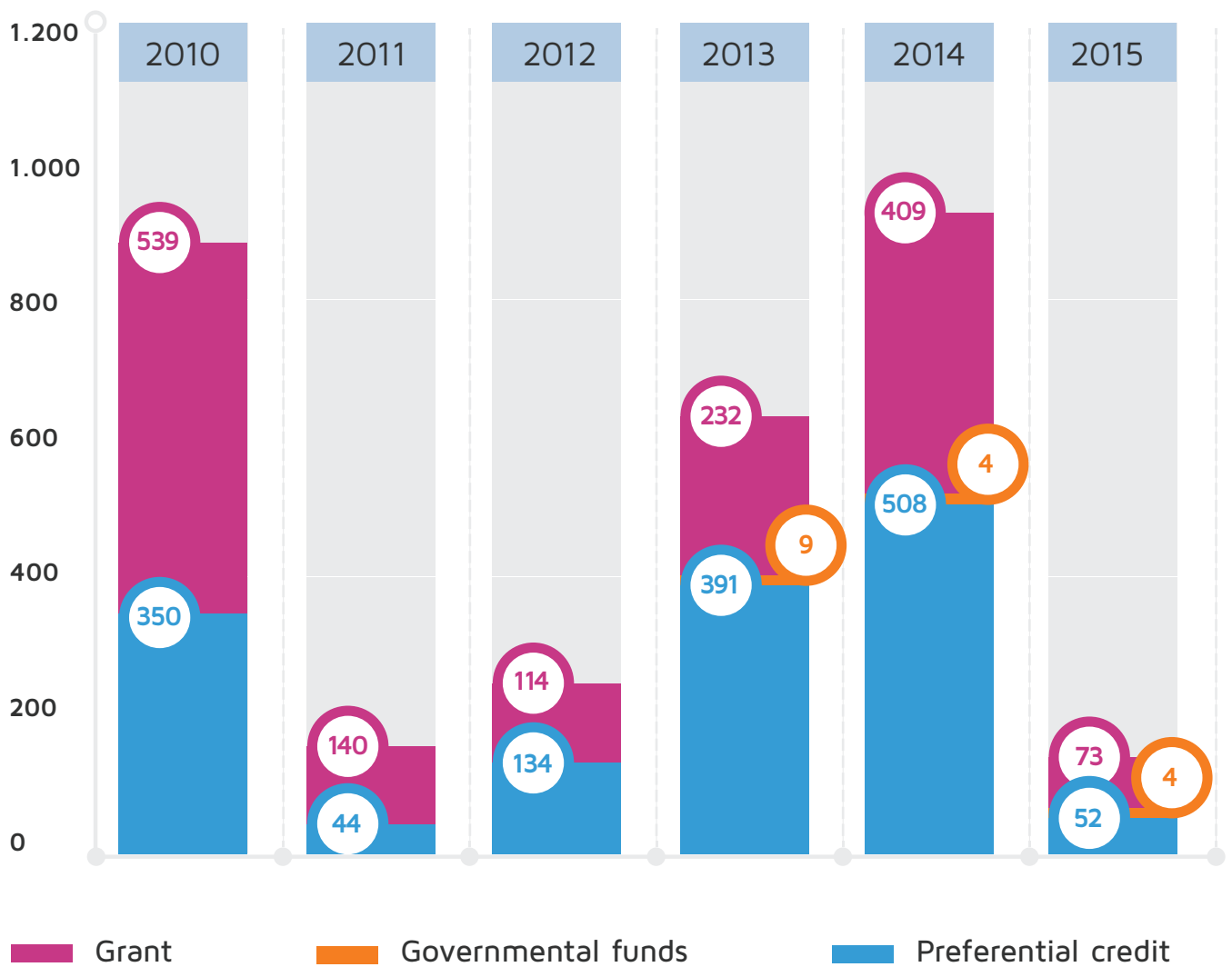
The contribution of the Moldovan government to projects implemented by donors is not significant and accounted for only 0.6% of the total sum during the period 2010–2015.

Preferential loans

In this case, the government has more power to direct the money and is responsible for how money is spent. By receiving preferential loans, the government can boost small business, support certain key sectors of the economy and/or invest in infrastructure projects.

Preferential loans represented 48.4% of the total value of donor projects implemented in Moldova during the period 2010–2015.

Types of donor financing, 2010-2015, m €



Source: Aid Management Platform, 2016



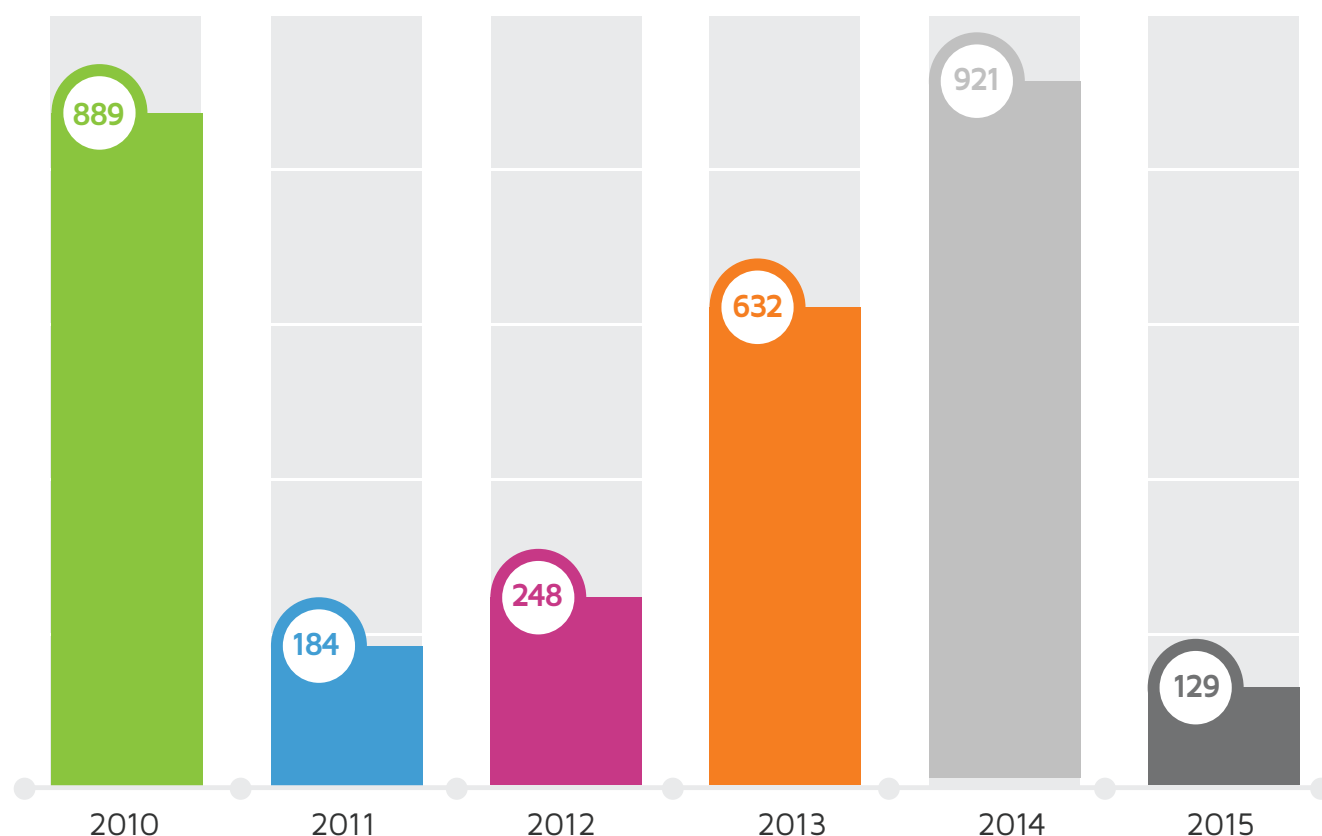
The value of donor supported projects

Projects implemented using foreign assistance since 2010 exceeded €3 bn. The year 2010 saw the establishment of a non-Communist government in Moldova and, as a result, many donors committed to providing a higher level of support.

Reflecting a slower adoption of reforms in the country, the value of projects launched in 2011 and 2012 fell dramatically compared to those in 2010. During the following two years, 2013 and 2014, the level of donor support in the form of projects increased once again.

This could be explained by the existence of a large stock of donor funds in 2010 that were meant to support the new pro-European government in the post-crisis period. Nevertheless, many of those donor-funded projects were designed for long-term periods, thus even if funding was attributed in 2010, the actual spending could have happened much later, for example during 2013-2014, which raised again the level of donor support.

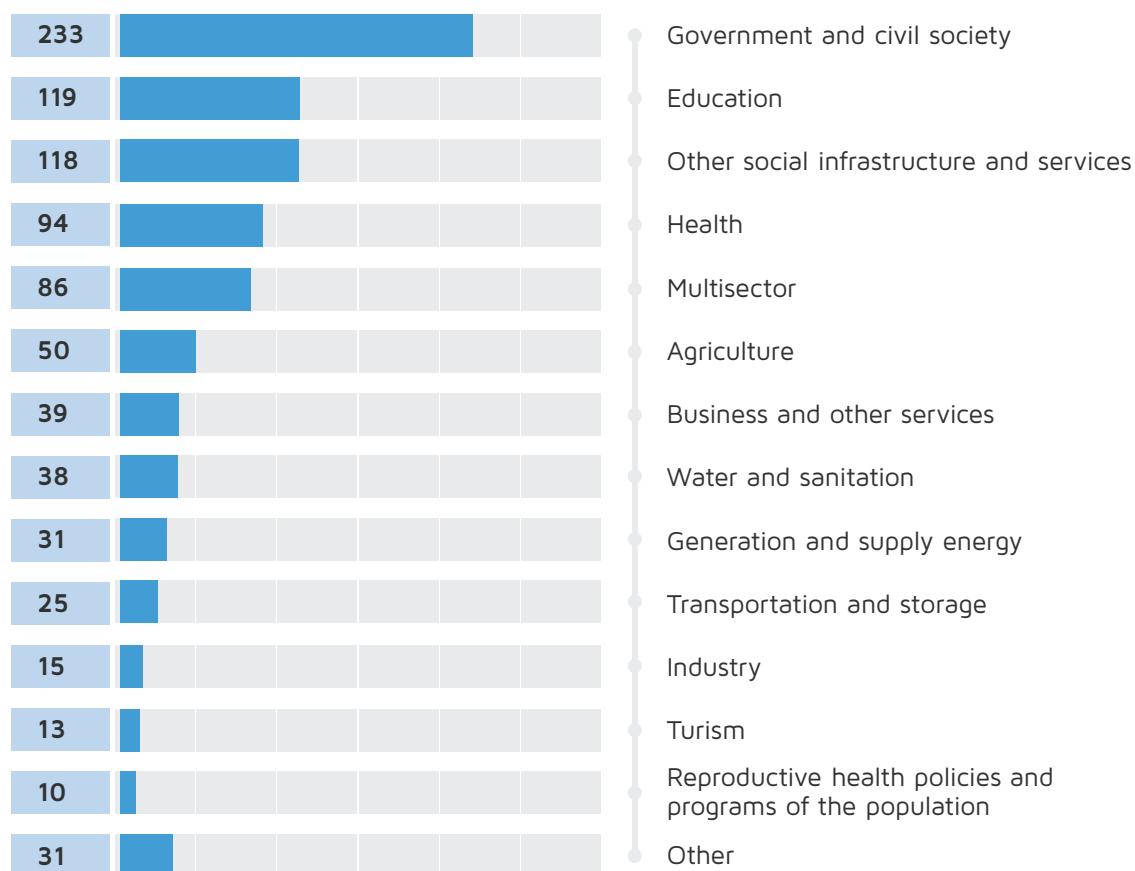
Annual value of projects funded by donors in Moldova, 2010-2015, m €



Source: Aid Management Platform, 2016

Sectors

Number of projects funded by donors in Moldova, by main sectors, 2010-2015



Source: Aid Management Platform, 2016

During the period of 2010–2015, the prioritized sectors of international donors, as measured by the number of implemented projects, were:



Sectors

Looking at the breakdown of donor organisations' priorities in terms of the level of financial assistance granted, donors do not categorise Moldova to be a poor agricultural economy, but rather a country requiring more support in undertaking reforms in its public sector, delivering improvements to participation in civil society and upgrading both its public services and infrastructure.

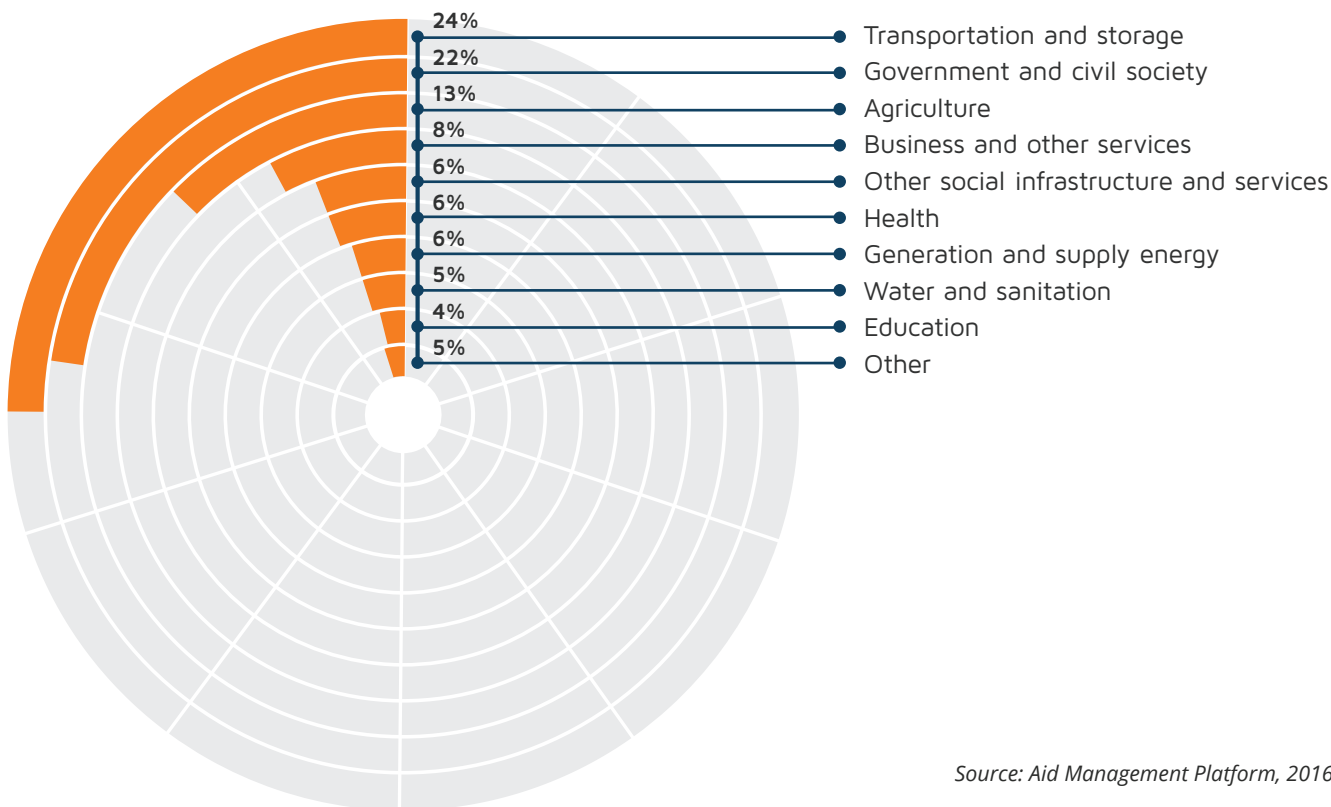
Donors perceive Moldova as a poorly governed country and not in direct need of humanitarian assistance or direct aid for its citizens. However, they see opportunities in developing the Moldovan economy, infrastructure and refining the functioning of the country's central and local public institutions.

A significant number of projects focused on infrastructure, agriculture, business and other services, water and sanitation, energy generation and supply, etc. One significant infrastructure project funded from grants was showcased by the US Agency Millennium Challenge Corporation, which expended €237 m on repairing roads in Moldova during the period of 2010–2015 (Millennium Challenge Corporation, 2015).



Photo: www.gov.md

Priority sectors funded by donors in Moldova during 2010-2015 (by value)



Source: Aid Management Platform, 2016

According to official government statistics, Moldova received a total of €3.1 bn from donor organisations in the period of 2010–2015, out of which:

- About a quarter has been allocated to the transportation and storage sector. During this period, several important roads have been repaired using various donors' contributions, mainly from the US and EU.

- Nearly €679 m, or 22% of the total, was allocated to government and civil society.

- Approximately €404 m, or 13% of the total was allocated to the agricultural sector, the 3rd on Moldova's list of sectors receiving the most foreign donor finance.

Photo: www.gov.md



Although a lot of projects were implemented in the education sector, these account for only 4% of the total funding provided by donors in Moldova. A large amount of money (5% of the donors' funds) has been invested in consultancy projects, direct support to public institutions, infrastructure improvement projects and optimising public services, including the implementation of various e-solutions.

In terms of donors' sectorial preference, the EU focuses on a large range of activities in Moldova, and these are classified into several major categories:

- Governance, democracy, human rights and support for economic and institutional reforms
- Trade and regional integration
- Infrastructure, communications and transport
- Water and energy
- Social cohesion and employment
- Human development
- Rural development, territorial planning, agriculture and food security
- Conflict prevention
- Multi-sector

The United States acts through USAID, with USAID Moldova Office currently emphasizing 2 main priorities:

- Economic growth
- Good governance and democratisation

The EBRD, which offers preferential credits has the following priorities in Moldova:

- Supporting private sector development
- Promoting European standards and regional integration
- Enhancing commercialisation and the sustainability of municipal enterprises

The United Nations Country Office in Moldova represents an umbrella for a large list of agencies such as:

- UN Women, UN Entity for Gender Equality and the Empowerment of Women
- UNAIDS, Joint UN Programme on HIV/AIDS
- UNDP, UN Development Programme
- UNFPA, UN Population Fund
- UNHCR, UN High Commissioner for Refugees
- UNICEF, UN Children's Fund
- UNODC, UN Office on Drugs and Crime

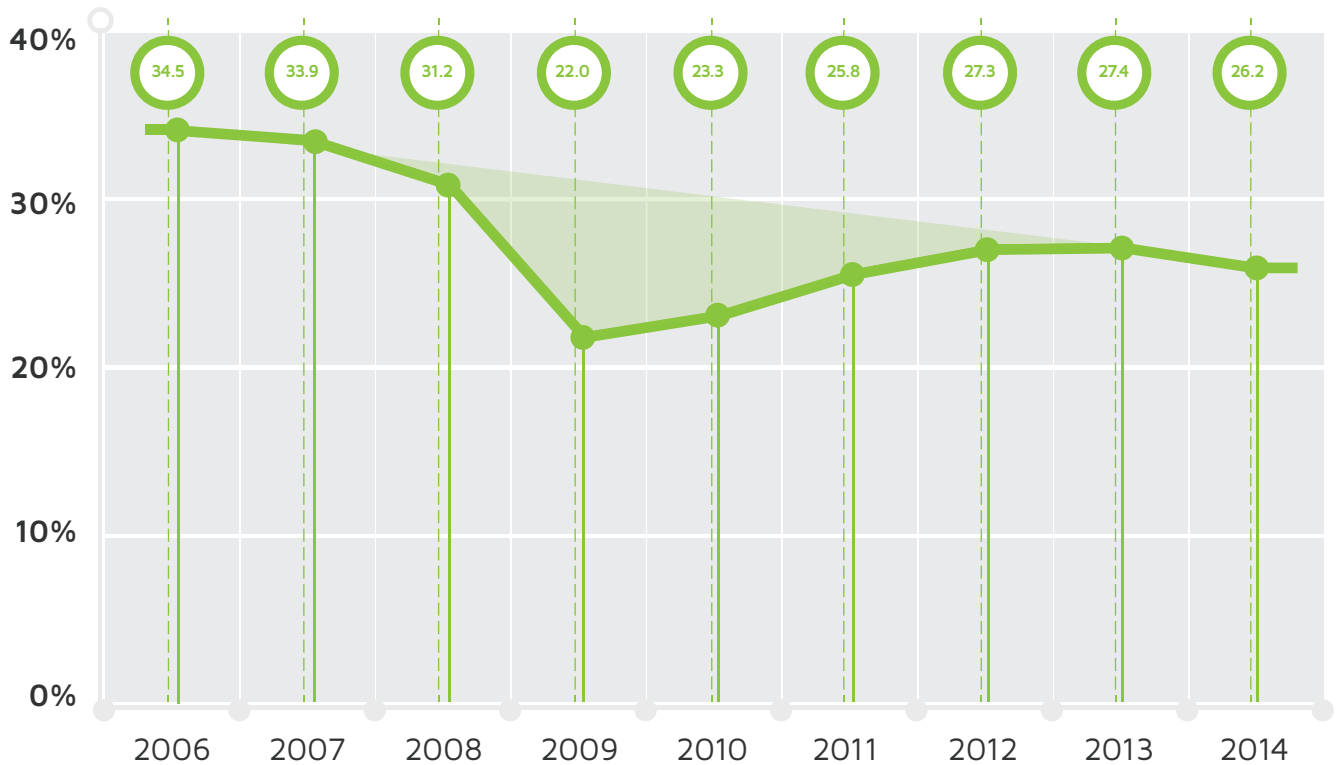
Other international organisations and development agencies that covered development projects in Moldova are:

- FAO, Food and Agriculture Organisation
- GIZ, Gesellschaft für Internationale Zusammenarbeit
- IFAD, International Fund for Agricultural Development
- ILO, International Labour Organization
- IMF, International Monetary Fund
- IOM, International Organization for Migration
- KfW, Kreditanstalt für Wiederaufbau
- OECD, Organisation for Economic Co-operation and Development
- OHCHR, Office of the High Commissioner for Human Rights
- OSCE, Organisation for Security and Co-operation in Europe
- SDC, Swiss Agency for Development Cooperation
- SIDA, Swedish International Development Cooperation Agency
- WB, World Bank Group
- WHO, World Health Organization

Most of these are represented in Moldova, while others are part of various regional offices and cover work in Moldova by sending their staff on temporary field missions. UN agencies with staff in Moldova are in charge of many areas, from business development, to health, protection of women's and children's rights, migration and others.

Remittances

Remittances received in Moldova, as % GDP, 2006-2014



Source: World Bank, 2015

Moldova is one of the world's top receivers of remittances as a share of its GDP- in 2014, ranked 3rd in the World (KNOMAD, 2016). Despite reaching a peak level of 34.5% of GDP in 2006, the share of remittances (as a percentage of GDP) remained relatively high over the last several years. In 2014, it represented 26.2% of GDP, but preliminary data show that the absolute value of remittances received in 2015 fell by 30% compared to 2014 (National Bank of Moldova, 2015).

Due to this and also to the fact that the Moldovan Leu (MDL) depreciated against the US dollar, Moldova's share of remittances fell to 18.1% of GDP in 2015.

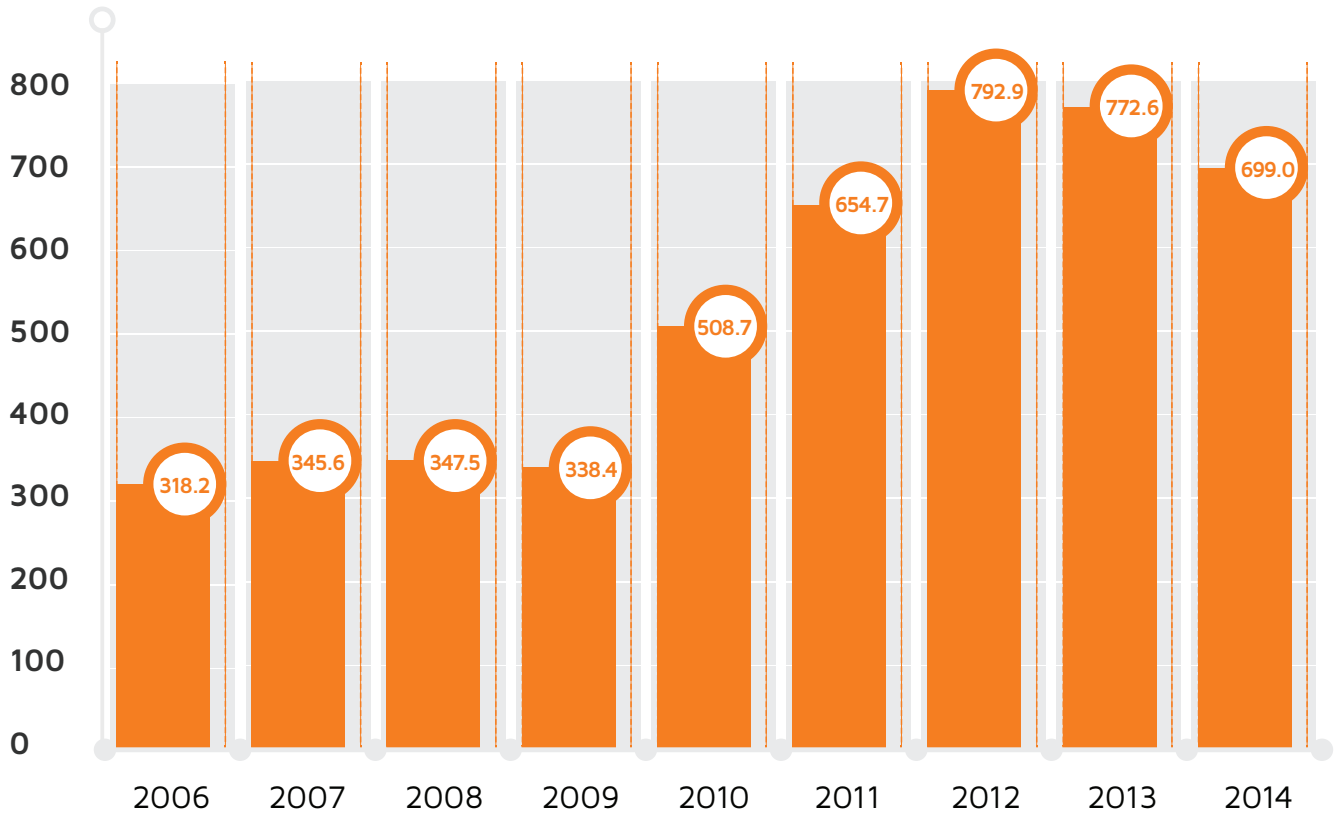
The absolute value of remittances received in 2015 by natural persons in Moldova was \$1.13 bn (National Bank of Moldova). This value is higher than the amount received by Moldova from donor organisations and shows that, in reality, the population of Moldova is mostly dependent on their relatives who work abroad.

According to the International Organisation for Migration (IOM), most remittances are used to fund current consumption, further highlighting the importance of donor contributions, as their assistance goes beyond merely fulfilling the basic necessities of the population and enables a focus on long-term national goals (International Organization for Migration, 2016).

The International Monetary Fund

The International Monetary Fund (IMF) is the main provider of preferential loans. The IMF provides short-term loans for balancing the national budget. The use of IMF loans peaked in 2012 at a total of \$792.9 m, but in the years since, has fallen by a total of almost \$100 m.

Moldova's use of IMF credit, 2006-2014, m \$

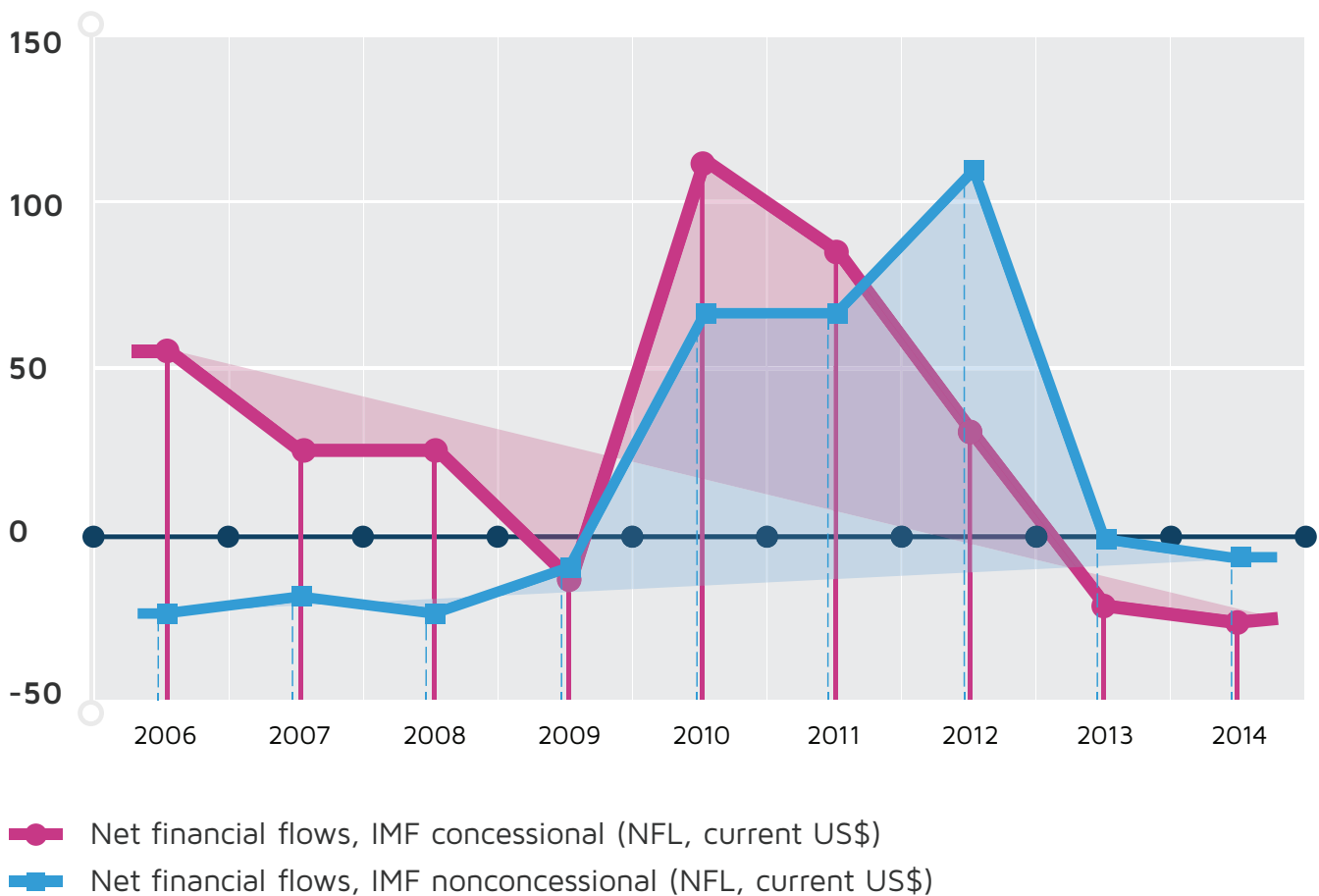


Source: The World Bank, 2016

International Monetary Fund

During the period of 2006–2014, Moldova received both concessional (substantially more generous terms than the market loans) and non-concessional (market based interest rate) financial flows from the IMF. In aggregate, concessional sums reached \$291 m during the period 2006–2014, whilst non-concessional flows totalled \$167.6 m.

IMF net financial flows to Moldova, concessional and nonconcessional, 2006-2014, m \$



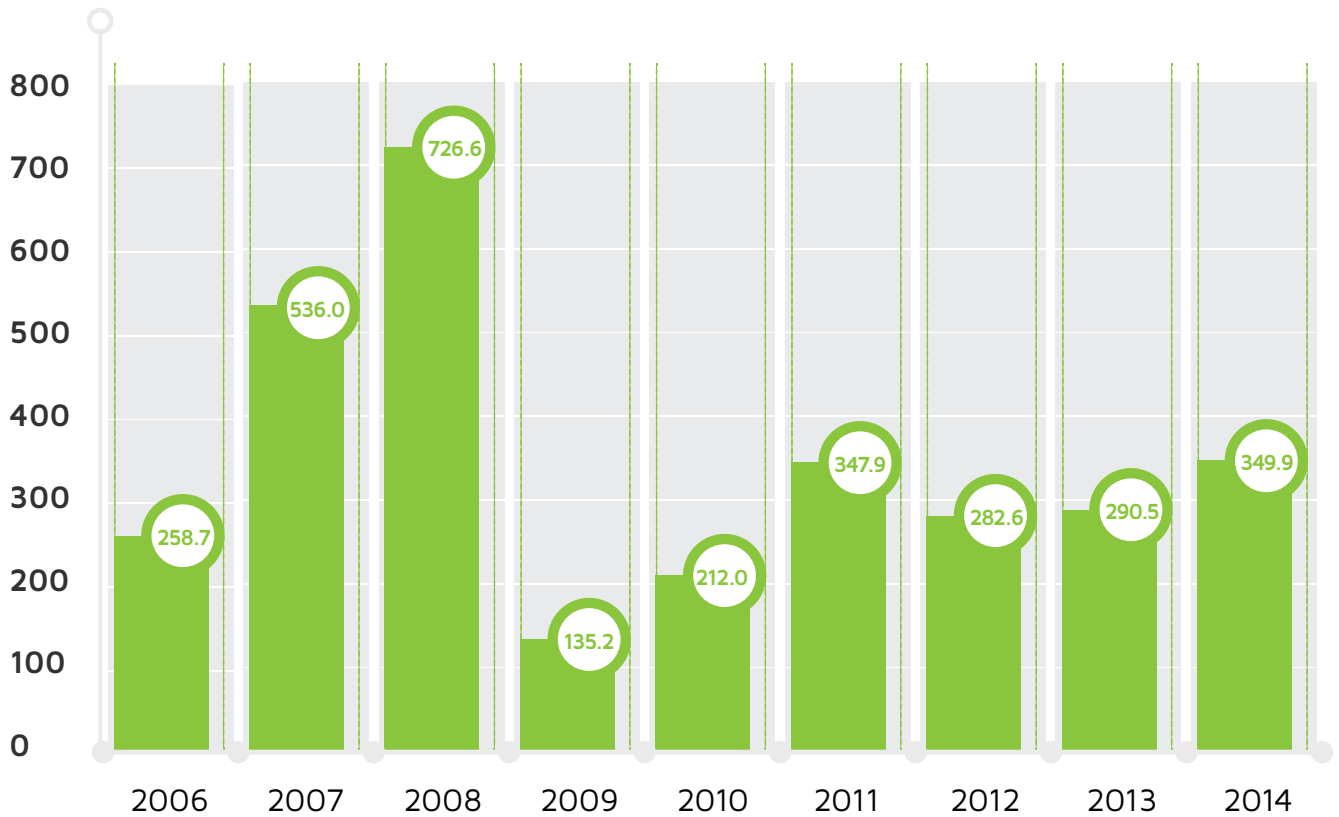
Source: The World Bank, 2016



Photo: www.bnm.md

Foreign direct investment

Value of FDI received by Moldova during 2006-2014, m \$



Source: The World Bank, 2016

Foreign Direct Investment (FDI) is another important source of financing for the Moldovan economy. Unlike other international donors, FDI is provided by the private sector. A high level of FDI acts as an indicator of a country's level of openness and attractiveness for investment from the rest of the world. Most developing countries rely on FDI to obtain the funds needed to build infrastructure for business and to invest in key sectors of their economies. FDI is an alternative to donors' funds, credit and remittances, as the money is injected directly into the economy, often alongside appropriate know-how.



Photo: www.gmfus.org

Foreign direct investment

In spite of greater levels of donor financing and more credit provided after 2009, the amount of FDI fell sharply compared to 2008.

This decrease in FDI was not due to the political situation, but to the economic crisis happened in 2008-2009 that affected the Moldovan economy severely.

In 2014, FDI reached approximately \$350 m, but this was less than half of the equivalent amount in 2008.

*An apple orchard near Sirota village, Orhei raion.
Photo: U.S. Embassy Moldova*



Conclusions

International donor assistance focuses on various areas of the Moldovan economy and society. Most support is provided to assist with initiatives aimed at good governance and democracy, but an important part of donor assistance is also directed towards supporting development of the private sector.

The biggest donor organisation in Moldova is the European Union (EU), which operates through its various agencies. The EU was responsible for most of the projects implemented during the period of 2010–2015 and for the largest combined value of projects.

The other major donor organisations are the European Investment Bank and the European Bank for Reconstruction and Development, both focusing on supporting private sector activity and promoting European standards across various sectors.

Out of the main international organizations involved, the United Nations (UN) conducts a large variety of projects through its multiple agencies represented in Moldova.

Foreign individual governments also actively support Moldova. The United States is one of the most significant donors that has focused on improving democracy, civil society, development of the private sector and justice reform.

Romania and Turkey both share linguistic and cultural ties with Moldova, one of the main factors of influence in their process of providing aid to Moldova.

However, donor-funded aid to Moldova is not the largest source of financial inflow to the country. Remittances make up the largest share of finance held by or directed to citizens and are helping them meet their current needs, whereas international organisations are directing financial resources to help public authorities fund key infrastructure projects and reforms within public institutions, such as the IMF. FDI is also a crucial resource to be taken into consideration, yet as data in this report show, its funding decreased in the past years due to the economic crisis and political instability.

*The Gates of the City Chisinau, Republic of Moldova
Photo: Mihail Arhipov*



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