



# Annual evaluation report on EGPRSP implementation

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**National Forum  
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# Introduction (1)

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- The Economic Growth and Poverty Reduction Strategy Paper (EGPRSP), approved by Law No. 398-XV of 2 December 2004, sets medium term priorities of the Government for achievement of sustainable development objectives of the country
- EGPRSP implementation was initially scheduled for 2004-2006. However, due to slow institutionalization and the ambitious nature of some actions, the implementation period was extended to include the year 2007
- The task of coordinating the monitoring and evaluation of EGPRSP implementation was assigned to the Ministry of Economy and Trade
- In March 2006 the first EGPRSP evaluation report was presented.



## Introduction (2)

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- The Report presents the view of the Government, but also takes into account studies and analyses conducted by other stakeholders
- The Report does not assess all EGPRSP aspects; however, along with the areas covered in 2006, the following additional areas are included
  - Access to justice and strengthening of the judiciary system
  - Combating corruption
  - Environmental protection and sustainable use of resources
  - Tourism
- In addition, the 2007 report evaluates the achievement of Millennium Development Goals and presents the technical assistance provided for reaching EGPRSP objectives



# Economic growth

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- The Government managed to prevent economic decline in spite of two major external shocks: increase of gas prices and introduction of restrictions for import of Moldovan alcoholic production in Russia
- Still, the external shocks have demonstrated and exacerbated the external vulnerability and decreased the qualitative development indicators of the country
- In 2006, GDP had a 4 percent growth, while the GDP per capita was 936 USD (as compared to 860 USD in 2005)
- The cumulative growth over the EGPRSP implementation period (2004-2006) was about 20 percent, thus exceeding the 17 percent target set in EGPRSP.

# Quality of economic growth: GDP by resources

Economic activity	Growth, %				Structure, %			
	2003	2004	2005	2006	2003	2004	2005	2006
<b>Gross added value</b>	<b>104,2</b>	<b>108,3</b>	<b>105,2</b>	<b>102,6</b>	<b>85,2</b>	<b>85,9</b>	<b>84,0</b>	<b>83,2</b>
<b>Goods - total</b>	<b>101,2</b>	<b>114,0</b>	<b>102,5</b>	<b>94,5</b>	<b>35,9</b>	<b>34,7</b>	<b>32,2</b>	<b>29,5</b>
Agriculture	89,1	120,4	101,5	95,9	18,3	17,6	16,4	15,1
<b>Industry - total</b>	<b>116,0</b>	<b>107,4</b>	<b>103,6</b>	<b>93,0</b>	<b>17,6</b>	<b>17,1</b>	<b>15,8</b>	<b>14,4</b>
Processing industry	117,8	107,8	102,5	90,4	15,4	14,5	13,3	12,0
Electricity, gas, water	103,0	100,9	110,1	105,0	1,9	2,2	2,0	1,8
<b>Services - total</b>	<b>107,1</b>	<b>104,0</b>	<b>107,6</b>	<b>107,7</b>	<b>51,6</b>	<b>53,5</b>	<b>53,8</b>	<b>56,0</b>
Construction	116,7	127,4	102,1	116,3	2,9	3,4	3,3	3,9
Trade	106,4	95,9	104,1	105,5	10,7	10,6	10,4	10,4
Transportation and communications	109,0	105,2	115,2	114,8	10,8	11,8	12,2	12,1
Other services	105,7	104,3	106,3	104,4	27,1	27,7	27,8	29,6
<b>Financial intermediaries' services</b>	<b>122,7</b>	<b>102,9</b>	<b>121,9</b>	<b>107,8</b>	<b>-2,3</b>	<b>-2,3</b>	<b>-2,0</b>	<b>-2,3</b>
<b>Net taxes on products and imports</b>	<b>123,4</b>	<b>102,1</b>	<b>121,7</b>	<b>110,8</b>	<b>14,8</b>	<b>14,1</b>	<b>16,0</b>	<b>16,8</b>
<b>GROSS DOMESTIC PRODUCT</b>	<b>106,6</b>	<b>107,4</b>	<b>107,5</b>	<b>104,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>



# Quality of economic growth (1)

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- The share of production sector in GDP reduced from 84,0% in 2005 to 83,2% in 2006
- The share of taxes in GDP increased from 16,0% in 2005 to 16,8% in 2006
- Gross value added (GVA), i.e. the production component of the GDP, increased by 2,6% in 2006 versus 2005
  - GVA in goods production decreased by 5,5%, while GVA in services increased by 7,7 %
- Net taxes on goods and imports increased by 10,8% versus 2005



## Quality of economic growth (2)

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- Gross capital formation increased by 15,1%
- Final consumption increased by 6,7%
- Final consumption growth was determined by the flow of remittances (35% of GDP) and growth of domestic revenues
- The increased demand is still satisfied from imports (in 2006 about 64% of the domestic demand was fuelled by imports)



## Other macroeconomic trends (1)

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- In 2006, direct foreign investments in national economy (net value) have amounted to about 222.3 mil. USD (6.6 percent of GDP), which shows a 11.9% increase as compared to 2005
- The entry of direct foreign investments in economy has grown by 34.6 percent, in social capital - by 27.8 percent

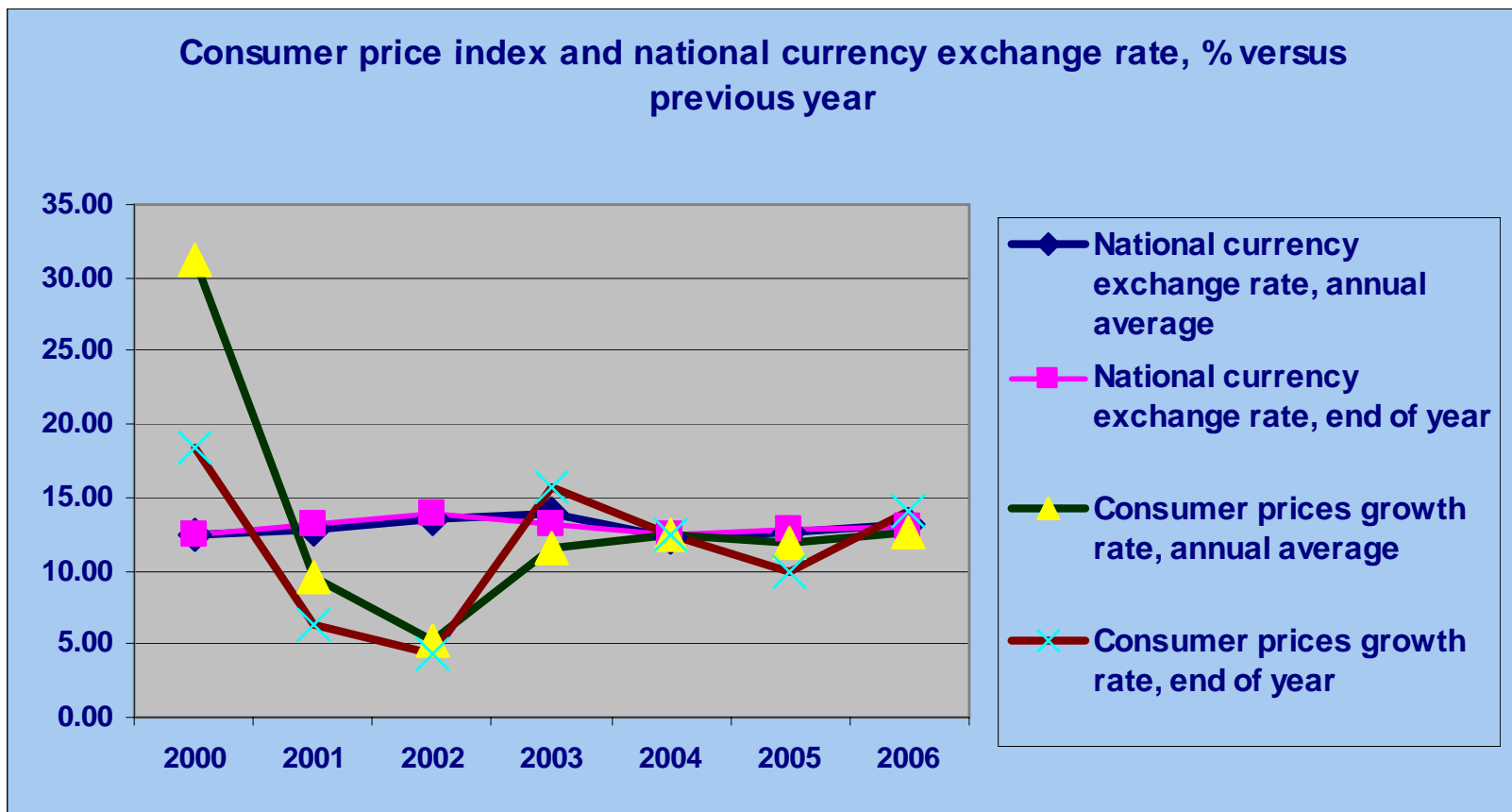


## Other macroeconomic trends (2)

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- In 2006, the inflation was 14.1% (as of the year end). The intensification of the inflation processes was conditioned by growth of energy prices, production costs, as well as by inflation expectations associated with the restrictions to export alcoholic production
- The exchange rate of the national currency has increased insignificantly from 12.8 lei early in the year to 12.9 at the year end for one USD or by 0.6 percent as compared to 2005

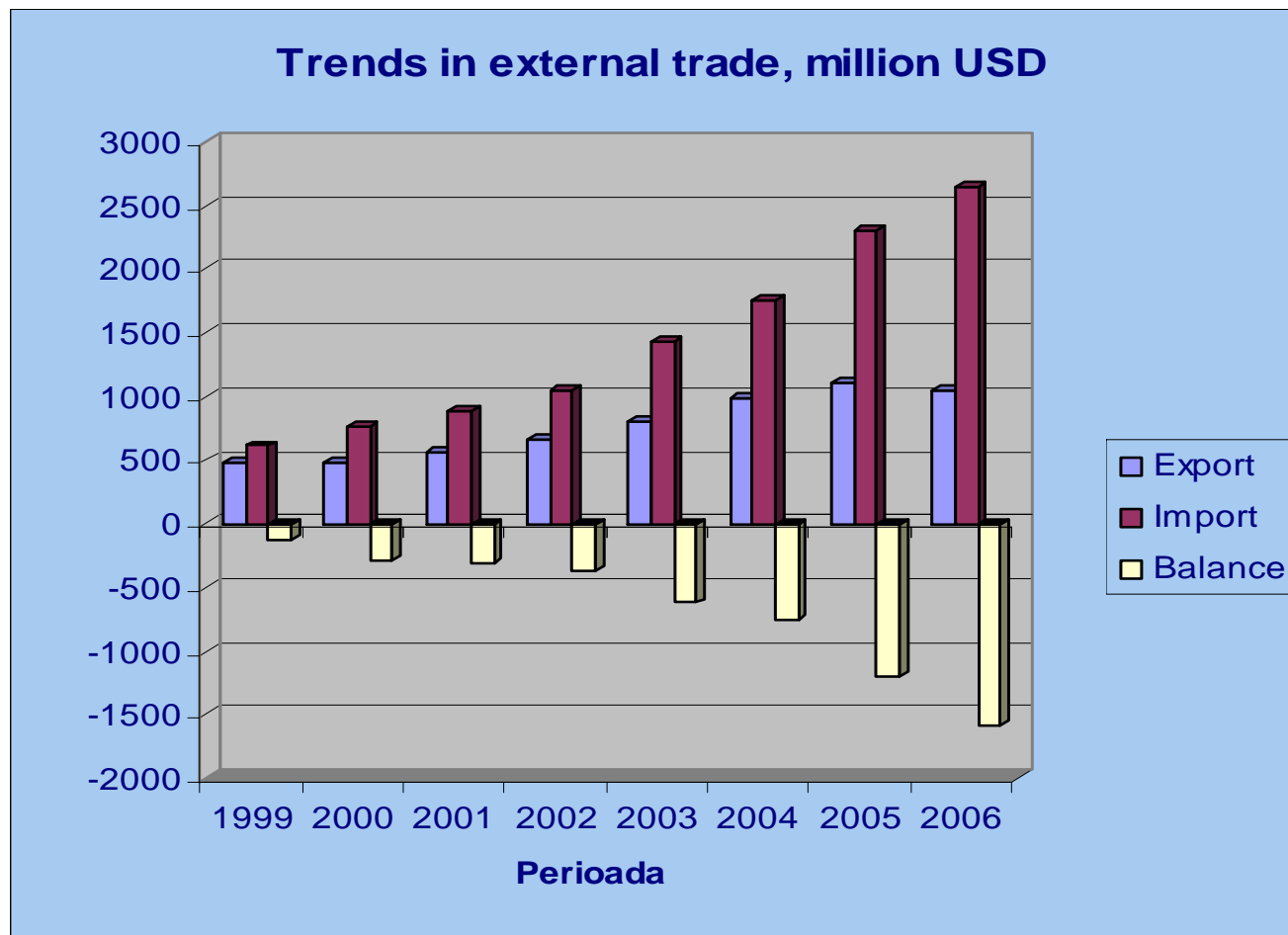
# Key macroeconomic indicators



# Increased external vulnerability

- In 2006, the amount of imports has grown by 15.1 percent as compared to 2005 and has reached 79 percent of GDP. The exports have decreased by 4.6 percent and amounted to 31.4 percent of GDP
- The total trade balance deficit was 1,591 mil. USD and it has increased by 33.5 percent as compared to 2005 and about 2.1 times as compared to 2004
- The income of the residents from work abroad (1,176 mil. USD) is still the main source that covers the trade balance deficit. These resources amounted to 74 percent of the trade balance deficit in 2006, to be compared to 77 percent in 2005

# Trends in external trade



# Increased external vulnerability

- In 2006, the Republic of Moldova has benefited from UE extended trade preferences, "GSP Plus", and has initiated negotiations for obtaining Autonomous Trade Preferences (ATP)
- A new free trade agreement for Central Europe (CEFTA) was signed to become effective on May 1, 2007
- However, Moldova is still dependent on CIS markets and on export of a small range of products with low added value
- There are still external barriers to exports, such as additional restrictions to export to Russian Federation and decrease of competitiveness of the local production due to increase of prices for energy resources
- Unreplaceable commodities, such as energy resources, still dominate in imports. At the same time, the import of current consumption commodities (replaceable) is still growing.



# Evolution of public revenues

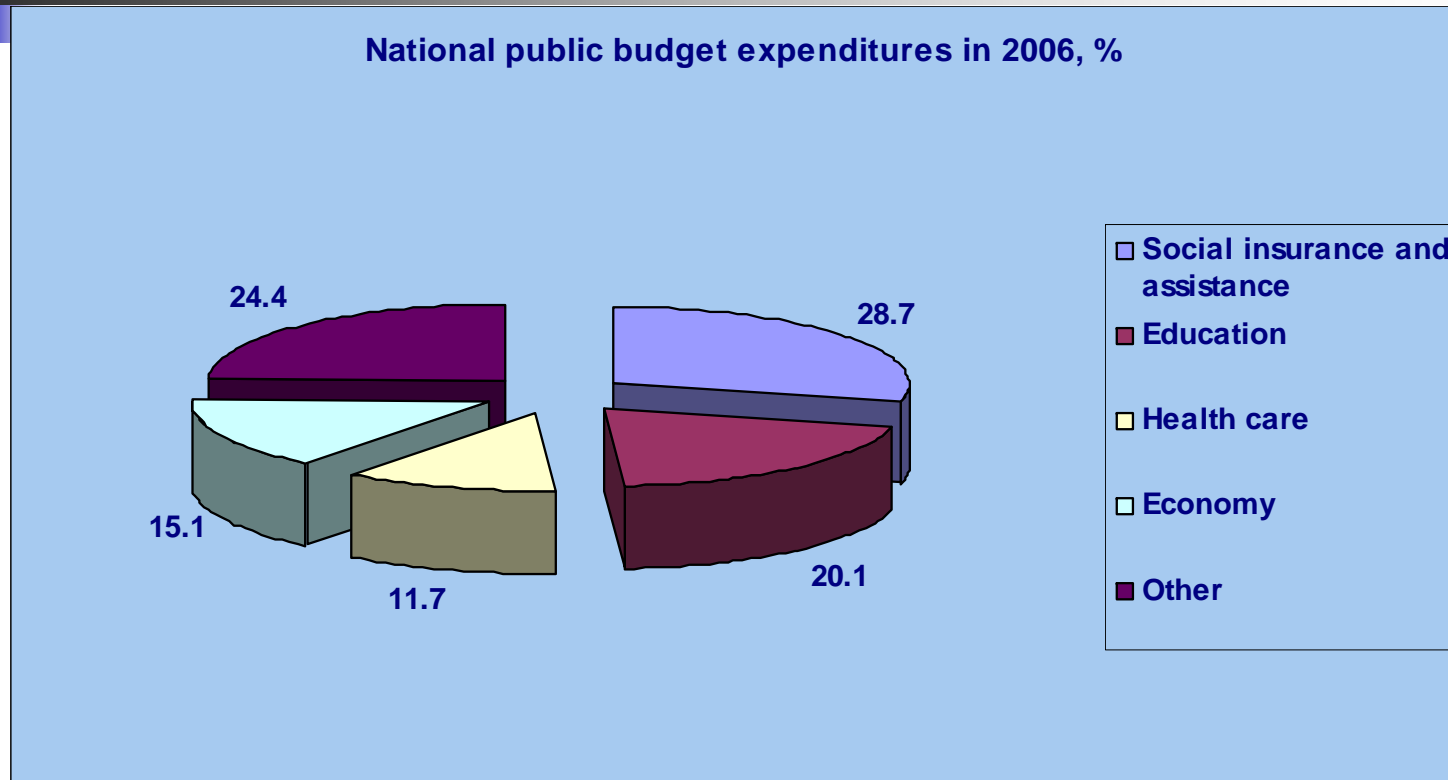
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- The national public budget revenues in 2006 amounted to 17,847.8 mil. lei, which exceeds the projected amount by 1.8% percent
- The tax potential per capita of territories (calculated as the function of taxes and the number of inhabitants without remittances) has grown and amounted to 602,1 lei, which is 25 percent more than in previous year; if we take into consideration all types of revenues, it was 774.4, which shows a 15 percent growth
- Direct taxes amounted to 37 percent, while indirect ones – to about 45 percent
- Thus, the taxes on consumption and especially on imports is still the basis for state budget revenues

# Evolution of public expenditures

- The expenditures of the national public budget were 17,973.9 mil. lei, a 28.9 percent increase as compared to 2005
- The social-cultural expenditures amounted to 63.2 percent
  - Social insurance and social assistance – 28.7%
  - Education – 20,1%
  - Healthcare – 11,7%
- About 15.1 percent of the total public expenditures were of an economic nature (they have grown by 45.4 percent)

# National public budget expenditures by sector



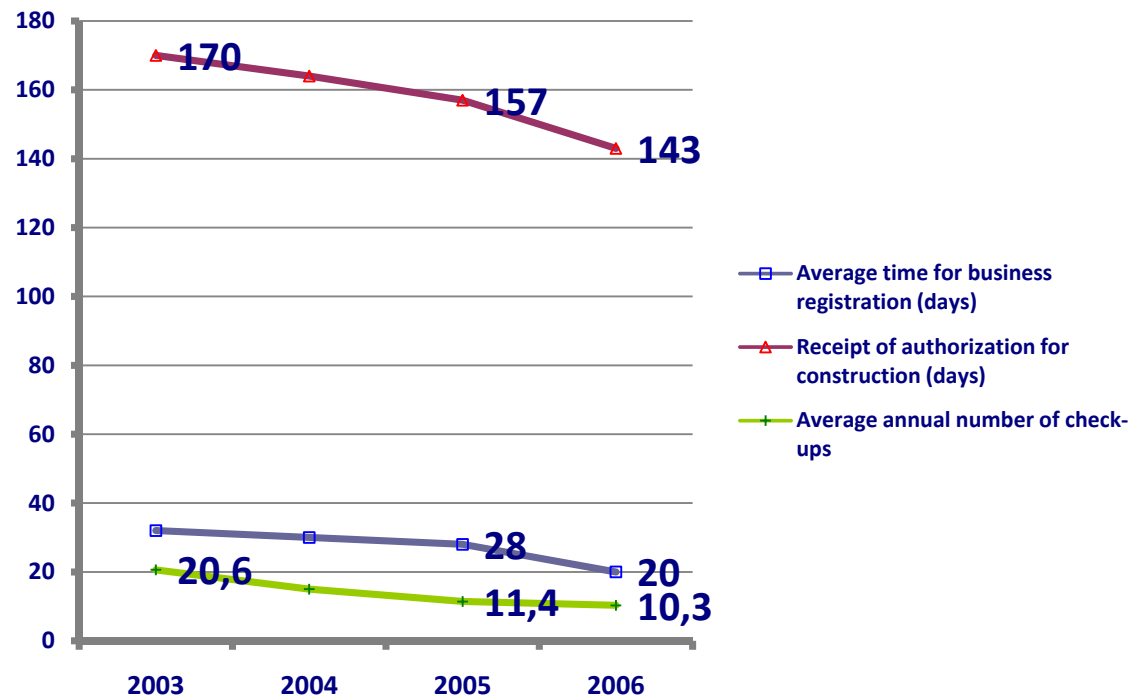


# Regulatory reform (1)

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- “One stop shops” were created in 15 units of local public administration in order to simplify registration procedures
- Time needed to register a new company has reduced from 28 days in 2004 to 20 days in 2006
- The average annual number of audits per one company in 2006 was 10.3, having decreased twice as compared to 2003
- The duration of the audits has reduced three times, while the average amount of a fine paid annually has decreased 12-13 times
- Over 2006, the number of licences and authorizations for business has decreased from 400 to 125.

# Regulatory reform (2)





# Agriculture (1)

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- Agriculture is still an important source for poverty reduction
  - It is the basic occupation of a large portion of the population which is situated around the poverty threshold
- Agriculture is a source for growth of processing industry and, respectively, of exports
- In 2006, the gross added value obtained in agriculture has reduced by 4.1 percent as compared to previous year



## Agriculture (2)

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- In 2006, a number of actions were undertaken to consolidate/re-parcel land plots using some market tools and the Program for consolidation of agricultural land was developed
- In 2006, the Fund for subventions to agriculture amounted to 256.0 mil. lei. About four thousand agricultural producers received subsidies, the individual farmers having received 9.2 percent of the total subsidies
- A fundamental restructuring related to quality, certification, packaging, transportation and storage of agro food products is necessary to promote their export



# Industry (1)

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- In 2006, the amount of industrial production has decreased by 6.9 percent as compared to 2005, specifically due to contraction of branches associated with wine production after introduction of the ban on export of alcoholic production
- The modest evolution in the industry explains the reduced performance of exports
  - There is a direct connection between the development of industry branches with major share in the structure of industry and exports growth
- ...but also the overtaking of exports by imports
  - Neither does industry benefit from the growing internal demand both for replaceable products, that is current consumption products, which require no large investments



# Industry (2)

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- In 2006, the Government has initiated a number of actions for increase of competitiveness of local production and improvement of public property management:
  - The Strategy for Industry Development till 2015 was developed
  - The Law on management and privatization of public property was developed
  - The implementation of the National Programme for development of technical regulations and setting of technical priorities for 2005-2007 have continued
- Increase of competitiveness, diversification of industrial production and improvement of performance for strengthening capacities for adapting the economy to the requirements of the international market could serve as a general objective for industry in the future.



# Energy sector

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- Achievement of the energy security objective of the country is still a serious challenge
- Increase of prices for natural gas which, in its turn, affects costs of local production of electric power and heat, leads to the need to re-evaluate the National Gas Supply Plan
- The rehabilitation / extension of the heat producing system is carried out with international support and the finalization of the process at national level depends on the identification of the necessary funds



# Roads and transportation

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- Although the rate of road degradation has decreased, the funds allocated for their maintenance are still insufficient
- The attraction of external assistance for rehabilitation of the national network of roads was successfully managed
  - In 2006, with technical assistance, the development of the National Programme in the area of transportation for a 10-year period, 2008-2017, was started
  - An agreement was reached between EIB, World Bank and EBRD to fund a project for rehabilitation and modernization of roads of the Moldovan portion of the Pan-European IX Corridor
- The establishment of an institutional and financial system for sustainable management and maintenance of the road network is necessary



# Water supply and sewerage

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- The reform of the water supply and sewerage system is carried out in the framework of EGPRSP and MDG commitments which call for increase of the population share with sustainable access to improved water sources from 38.5 percent in 2002 up to 47.7 percent in 2006 and up to 68.5 percent in 2015
- In 2004-2006 the water supply and sewerage systems were developed and renovated in 103 of the 156 communities, which is 67 percent of the objective set up in EGPRSP
- Most of the utilities for water supply and sewerage suffer due to financial problems, low level of payment collection and large water loss in the system



# Environmental protection and sustainable use of resources

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- In 2006 the draft of the General Action Plan on approximation of the national legislation to the European standards was developed and consulted with the European Commission
- The activities targeted towards improved waste management have continued
  - About 2,600 tons of pesticides were repacked and put for storage in central warehouses of 22 districts
  - The inventory of domestic solid waste disposal sites was made
  - The controlled storage and separate collection of waste is still a problem
- In 2006, works were carried out for reducing water pollution and extension of areas covered with forest species on degraded land, on a 7.5 thousand hectare area



# Regional development

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- In 2006, the regional policy was focused on the development of the legal and institutional framework for regional development
  - The law on establishment of the Ministry for Local Public Administration with responsibilities for development, implementation and monitoring of regional policies was adopted
  - The Law on regional development in the Republic of Moldova, which defines development regions and the procedure for inter-regional cooperation, as well as the institutional framework, was adopted
  - The draft law on administrative decentralization was adopted in first reading and submitted for comments to the Council of Europe
- The achievement of the major objective of reducing economic and social imbalances between regions is proving to be very difficult due to major problems in the structure of the regional economy, unsatisfactory state of economic and social infrastructure, insufficient investments, lack of correlation between sector and regional policies, insufficient participation of local actors



# Education

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- Accessible and high quality education is one of the most important factors of the human capital development, growth and competitiveness of the economy of the country
- The Government has made progress in reforming the pre-university education through improvement of curricula and review of the educational processes and techniques
- The restructuring process in the university education system which has started along with joining the Bologna Process, has continued



# Healthcare

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- As a result of the healthcare reform, healthcare insurance was introduced, primary healthcare was strengthened and restructuring of the hospital structure was initiated
- Currently, about 75 percent of the population of the country has healthcare insurance, while over 80 percent has access to family healthcare
- Reaching MDG
  - Progress in reducing infant mortality and mortality in children under five, maternal mortality
  - Modest progress in reaching objectives related to tuberculosis and HIV/AIDS



# Social protection

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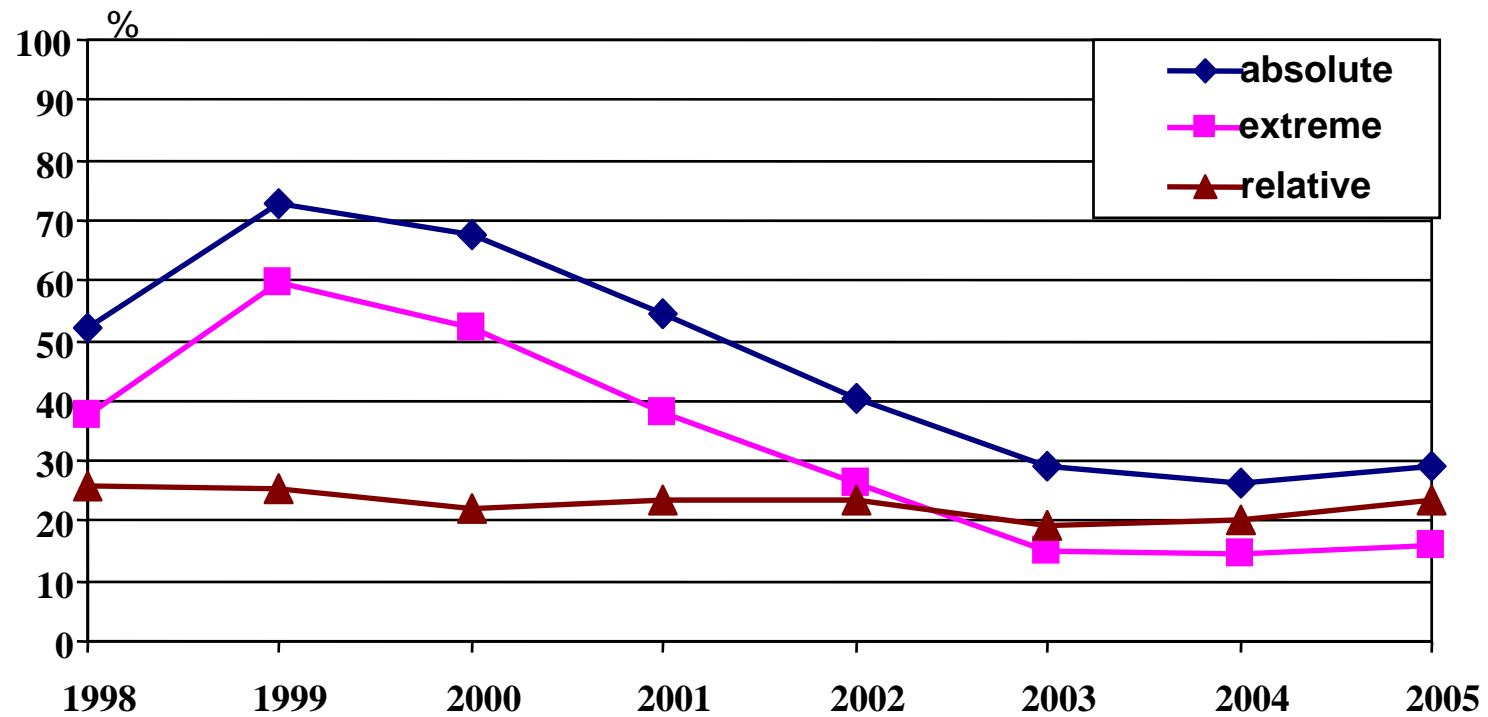
- The reform of the system of pensions is carried out at a slow pace, while the financial stability of the social insurance budget raises concern
- The performance of the social assistance programmes is low, while implementation of the tool for actual piloting of the eligibility of targeted compensations beneficiaries in four districts has shown that the management of the new tool is rather expensive and it needs to be reviewed and adjusted.

# Poverty trends

**Figure 1**

**Trends in poverty rate in 1998-2005**

Source: MET, based on HBS data





# Poverty trends

The poverty rates are calculated, mainly, based on two national lines:

- Extreme poverty line, based on the monetary value of the food basket, defined in terms of minimal daily consumption of calories (279 MDL in 2005, 258.1 MDL in 2004)
- Absolute poverty line, based on the estimate of total consumption expenditures (354 MDL in 2005, 327 MDL in 2004)
- The international poverty line of 2.15 USD per capita/per day, adjusted to purchasing power parity, is used for comparison
- In 2005, poverty rates have grown insignificantly, specifically due to poverty growth in rural areas and increase of inequality:
  - According to national lines, 29 percent of the population was under the absolute poverty line and 16 percent – under the extreme poverty line
  - According to the international poverty line, the poverty rate calculated based on the income per capita was 27.6 percent, which is lower than the 28 percent target set for 2006 in Millennium Development Goals



# Conclusion

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- The major problem in ensuring a sustainable growth is the low competitiveness of domestic production both on domestic and particularly on foreign markets
- Low efficiency of the existing resource redistribution schemes (particularly social assistance)