

REPUBLIC OF MOLDOVA: ECONOMIC  
DEVELOPMENT DOCUMENT



# REPUBLIC OF MOLDOVA

## ECONOMIC DEVELOPMENT DOCUMENT

May 2017

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**International Monetary Fund**  
**Washington, D.C.**



Nr. 21-07-2187

Chişinău

„24” martie 2014

**H.E. Mrs Christine LAGARDE**  
**Managing Director**  
**International Monetary Fund**  
**700 19th Street, N.W., Washington, D.C. 20431**

**Excellency,**

The National Development Strategy "Moldova 2020", approved in 2012, presents a vision of cohesive long-term sustainable economic development of Moldova based on a diagnostic study of constraints to economic development.

Government's objectives remain unchanged: reducing poverty through macroeconomic stability and sustainable growth. Achieving these goals imply the modernization of public services and liberalization of the economy, financial system development, favorable investment climate, small and medium-sized businesses development, modern infrastructure, diversification and exports promotion, creation of new jobs, and enhanced social protection to vulnerable categories of the population. These objectives, which include the achievement of the Sustainable Development Goals, are reflected in the Government's Activity Plan, in the National Development Strategy "Moldova 2020" and in other policy documents.

According to the provisions of the Strategy, upon completion of the first phase of Strategy implementation, after 2015, the State Chancellery shall develop an Intermediate Assessment Report, which shall state the implementation outcomes and impact, and adjust the end objectives depending on the achieved progress.

Thus, the assessment results will underpin the decision on whether to update the "Moldova 2020" National Development Strategy or to develop the "Moldova 2030" National Development Strategy. The Final Assessment Report should be completed by May 2017, and the Strategy should be updated or replaced a new one, by December 2017.

In this context, I would like to submit the Economic Development Document, elaborated by the State Chancellery jointly with the responsible public authorities, which will serve as a basis for updating our National Development Strategy.

Seizing this opportunity I would like to renew to your Excellency the assurance of my highest consideration and gratitude for the fruitful cooperation between our institutions.

Sincerely yours,

**Pavel FILIP**  
**Prime minister**

## Concept Note on the Economic Development Document (EDD)

### I. Background

“Moldova 2020” National Development Strategy, approved by Law No 166 of 11 July 2012, presents the long-term economic development vision of the Republic of Moldova, developed on the basis of a study that diagnosed the constraints to economic development.

In terms of its long-term strategic objectives, “Moldova 2020” National Development Strategy is focused on the following development priorities:

- 1) Bring the education system in line with labor market requirements in order to boost labor productivity and increase employment in the economy;
- 2) Increase public investment in the national and local road infrastructure to reduce transportation costs and increase the access speed;
- 3) Reduce financing costs by enhancing competition in the financial sector and developing risk management tools;
- 4) Improve the business climate by optimizing the regulatory framework and applying information technologies in public services for business and for the public;
- 5) Reduce energy consumption through increasing energy efficiency and using renewable energy sources;
- 6) Ensure the financial sustainability of the pension system in order to reach an appropriate wage replacement rate;
- 7) Enhance the quality and efficiency of the judiciary and combat corruption to ensure fair access to public goods for all people.
- 8) Increase the competitiveness of agrifood products and sustainable rural development.

The focus of this Strategy is to produce a social and economic impact on each of the above-mentioned dimensions. The cumulative effect of solving the addressed problems lies in removing the critical barriers that prevent the optimal use of resources. This approach makes it possible to prioritize areas of state intervention and subject them to a clearly defined objective of the Strategy: ensuring qualitative economic development and, implicitly, poverty reduction.

According to the provisions of the Strategy, upon completion of the first phase of Strategy implementation, after 2015, the State Chancellery shall develop an Intermediate Assessment

Report, which shall state the implementation outcomes and impact, and adjust the end objectives depending on the achieved progress.

Thus, the assessment results will underpin the decision on whether to update “Moldova 2020” National Development Strategy or develop “Moldova 2030” National Development Strategy. The Final Assessment Report should be developed by May 2017, and the Strategy should be updated or a new Strategy should be developed by December 2017.

Besides, according to the Action Plan implementing the Public Administration Reform Strategy for 2016-2018, the Government will develop “Moldova 2030” National Development Strategy taking into account the assessment of “Moldova 2020”, commitments assumed under the Association Agreement, and the objectives of 2030 Agenda for Sustainable Development.

The Government of the Republic of Moldova will be supported in this endeavor by United Nations Program via the Policy Analysis Project.

The goal of this project is to make an independent assessment of “Moldova 2020” National Development Strategy and provide technical support to the Government of the Republic of Moldova in developing “Moldova 2030” National Development Strategy, taking into account the assessment outcomes, commitments assumed under the Association Agreement and the objectives of 2030 Agenda for Sustainable Development.

At the same time, the objective of the Government of the Republic of Moldova remained unchanged: poverty reduction by macroeconomic stability and sustainable growth. This objective can be achieved by upgrading the public services and liberalizing the economy, developing the financial system, establishing a favorable investment climate, fostering the development of small and medium-sized enterprises, judiciary and anti-corruption reforms, improving transport and other physical infrastructure, diversifying and promoting exports, creating new jobs and strengthening the social protection of vulnerable groups of people. These objectives and the Sustainable Development Goals are reflected in the Government’s Action Plan and in other policy documents.

As “Moldova 2020” National Development Strategy was adopted by the Parliament and, therefore, it will take longer to update it/develop a new one, the Government of the Republic of Moldova developed a Concept Note on Economic Development Document that contains poverty reduction measures, which will underpin the updated “Moldova 2020” National Development Strategy / newly developed “Moldova 2030” National Development Strategy.

## II. Current poverty situation, factors impacting poverty

### **Methodological references**

The poverty data are calculated and supplied by the National Bureau of Statistics, and are used by the Ministry of Economy for poverty analysis and monitoring.

A number constraints currently affect the quality of poverty data, such as:

- The methodology for measuring poverty has not been reviewed for 10 years, hence it neither reflects fully the actual changes in people's consumption/income, nor ensures a proper convergence between the living standards during different periods of time.
- The sampling framework for the Household Budget Survey (the main source of information for the calculation of poverty indicators) is outdated, being based on the 2004 Census data.

This constraint impacts significantly the end data, given the major changes in the population size, occurred in the past decade, the intense migration etc. There is a high level of non-answers (over 30%) in the statistical surveys, which also impacts the data quality. These constraints influenced directly the quality of data, which do not reflect accurately the current economic realities. The extremely low values of the official poverty rates and the contradictory evolutions of poverty rates compared to the recent social-economic trends prove that the quality of data has worsened with time.

In order to improve the data quality it is important to finish the review of methodology, started by NBS in 2016, to weigh the HBS sample to the population size calculated on the basis of the 2014 Census data, and to take measures in order to decrease the non-answer rate in the HBS.

The poverty rate had a decreasing trend in 2015 in the in the Republic of Moldova. The absolute poverty rate constituted 9.6%, i.e. by 1.8 p.p. less than in 2014.

In 2015 a person was deemed poor if the average monthly expenses were lower than the absolute poverty threshold, i.e. MDL 1378.91.

Significant progress has been achieved with poverty reduction during the past 8 years, with the national poverty rate decreasing from 26.4% in 2008 to 9.6% in 2015.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Extreme Poverty Line (MDL)	747.4	839.3	945.9	945.9	1,015.9	1,093.1	1,143.4	1,196.0	1,257.0	1,378.9
Absolute Poverty Rate (%)	30.2	25.8	26.4	26.3	21.9	17.5	16.6	12.7	11.4	9.6
Absolute Poverty Gap (%)	7.9	5.9	6.4	5.9	4.5	3.2	2.9	2.0	1.5	1.5
Absolute Poverty Severity (%)	3.0	2.1	2.3	2.0	1.4	1.0	0.8	0.5	0.3	0.4
Extreme Poverty Line (MDL)	404.2	453.9	511.5	511.5	549.4	591.2	618.4	646.8	679.8	745.7
Extreme Poverty Rate (%)	4.5	2.8	3.2	2.1	1.4	0.9	0.6	0.3	0.1	0.2
Extreme Poverty Gap (%)	1.0	0.5	0.5	0.4	0.3	0.1	0.1	0.0	0.0	0.0
Extreme Poverty Severity (%)	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Source: NBS, based on HBS data

The transfers sent by emigrants, higher income in agriculture, salaries and social benefits were the most important factors that decreased poverty.

The means-tested social assistance scheme had a significant impact on poverty reduction. Such mechanisms are applied only for three types of benefits: social aid, allowances for the cold period of the year and material aid from the Republic Fund for Social Support to the Population. However, the social aid proved to be the most efficient social protection against poverty. The social support programs that are not based on means testing mechanisms are not efficient in terms of poverty reduction.

In 2015 the poverty level has fallen both in urban and rural areas. The poverty rate was 14.5% in the countryside, decreasing by 1,9 percentage points over the previous year. In urban areas the poverty rate decreased up to 3.1%, which is 1.9 percentage points less than in 2014.

Still, there are substantial differences in living standards between urban and rural population. Despite the steady fall in poverty rates in recent years in the countryside, the rate of poverty in villages remains higher than in urban areas. The poverty rate in rural areas is about 5 times higher compared to urban areas. Moreover, the disparity in living standards between urban and rural areas is growing: in 2006 - 75.7% of poor people lived in the countryside, in 2015 this figure increased to 86%.

The main causes of rural poverty are the vulnerability of the agricultural sector and the shortage of employment alternatives in other economic sectors. At the same time, rural areas are more disadvantaged in terms of physical infrastructure, public utilities and living conditions.

Poverty continued to affect the traditionally vulnerable categories of the population: households that depend on subsistence farming, households consisting of large families and those with many children, the elderly, persons lacking education or professional skills.

The poorest households are those employed in the agricultural sector and those practicing subsistence farming. Absolute poverty rate for this group of households is 27.1% and 21.2% respectively, which is more than twice higher than the national average. Moreover, subsistence farmers are virtually the only group with an increase in poverty rate in 2015. Agricultural sector remains among the least lucrative sectors of the economy, providing the

lowest revenues for the population. Low productivity of agricultural activities is caused by the large number of farms with small areas (small land entitlements), limited use of modern technologies and over-employment in agriculture of rural population (>50%).

Another vulnerable category are families with three or more children, with a poverty rate of 23.2%. The poverty level in this group is almost three times the national average, proving that the social protection system is not very effective in protecting children against poverty.

The elderly is another vulnerable group of society in terms of their exposure to the risk of poverty. For people living on pensions the poverty rate averaged 10.1% which is above the national average. The risk of poverty is higher for households headed by persons aged over 65 years.

The risk of poverty decreases substantially with increasing levels of education. The highest poverty rates are recorded in families headed by persons with incomplete secondary and primary education – about 18.4%, almost twice the national average poverty rate. At the same time, the poverty rate among families headed by persons with higher education is only 2.9%. However, data suggest that problems emerge with respect to this particular group. Although poverty rates are the lowest among highly educated people, data analysis shows that over the past three years, poverty has actually increased in this particular group (from 0.7% in 2013 to 2.9% in 2015). These developments can be explained by low wages paid in some economic sectors, particularly in the public sector. The minimum salary in Moldova is 1000 lei (48 euro) in budgetary sector, which is below the poverty level and subsistence minimum. Also, this problem can be explained by the mismatch between educational supply and labour market demand, making it difficult for graduates to find a job on the market but also the inadequate quality of the education system.

<h3>III. Poverty reduction measures</h3>
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Priority 1. Aligning the education system to labour market requirements in order to increase labour productivity and increase employment rate in the economy

Objective 1. Training qualified staff in line with the needs of the private sector

- Upgrading the education system and making it more efficient in order to enhance the competitiveness of the national economy, by ensuring the training of competent and qualified workforce (2017-2020);
- Supporting investors in preparation and training of personnel (staff), as needed for the creation of jobs (2017);
- Providing the Engineering college from Straseni town with the necessary equipment and furniture for the training of qualified staff, as needed to support investors with job creation (2017);



- Strengthening the capacities of the sectoral committee for professional development and training in the non-food industry (2017-2020);
- Developing occupational standards for vocational education / training in the non-food industry (2017-2020);
- Improving educational policies and institutional framework to support the implementation of demand-driven technical vocational education (VET), by adopting elements of the dual system (2017-2020);
- Adjusting and improving the regulatory framework at all levels with a view to systemic implementation of demand-driven VET with elements of the dual system (2017-2020);
- Encouraging the involvement of companies in the systemic implementation of demand-driven dual training programmes (2017-2020);
- Developing dual partnerships between the labour market and VET institutions (2017-2020);
- Organizing and carrying out information /outreach activities, to improve the image of vocational education in general and of dual training programs in particular, based on examples of good practice (2017-2020);
- Using best international practices for the purpose of educating and training company managers in various sectors of the national economy (2017-2020);
- Developing the legal framework, as needed to extend the validity of the German-Moldovan training program for company managers to 2018—2020 (GIZ) (2017);
- Implementing and following-up on the German-Moldovan training program for company managers (2017-2020).

Objective 2. Smart economic development based on knowledge, innovation and modern technologies.

- Training entrepreneurs in order to enhance their entrepreneurial skills (permanently);
- Strengthening entrepreneurship in innovation and technology transfer (permanently);
- Enhancing the role of sectoral committee for trainings in trade and services as needed to prepare staff for the labour market (permanently);
- Developing a mechanism for the certification of skills in trade /services acquired through work experience (2018);

- Further development of occupational standards for trade /services professions (2018);
- Establishing a system of lifelong professional training in trade /services (2018);
- Using companies' innovation, modern technologies and know-how for professional training of workers and continuous training of foremen-instructors /trainers of educational institutions, in line with labour market requirements (2017-2020).

Priority 2. Reduce financing costs by enhancing competition in the financial sector and developing risk management tools.

Objective: Facilitating access to finance.

- Streamline the Credit Guarantee Fund operation mechanism (2017);
- Facilitate the access to loans for SMEs by providing financial guarantees (2017-2020);
- Support the establishment of a national network of business angels (2020);
- Foster the establishment of the online platform for crowd-funding (2020);
- Redirect the flow of remittances from consumption to productive investment and enlarge the opportunities of access to non-reimbursable financial resources (PARE 1 + 1) (2017-2020);

Priority 3. Improve the business climate by optimizing the regulatory framework and applying information technologies in public services for business and for the public.

Objective 1. Favorable business environment harnessing all opportunities for business expansion (new businesses).

- Establishment of the Consultative Council for SMEs (2017);
- Establishment of a regulatory framework for family businesses (2017);
- Development and implementation of a National Program to support young entrepreneurs (2017-2020);
- Development of a support program for new businesses run by young people with innovative ideas "Moldova Start-up" (2017-2020);
- Implementation of "Women in Business" Program (2017-2019);
- Development and implementation of a program to support domestic enterprises with export potential (SME's internationalization) (2018);

- Development and implementation of a program for SMEs adaptation to green economy (2018-2019);
- Fostering business partnerships nationally and internationally (B2B, EEN) (2018-2020);
- Expanding business support infrastructure (business incubators, industrial parks, clusters, consultancy centers) (2017-2020);
- Implementation of the concept of notification when launching a commercial activity by creating informational resource “domestic e-commerce” (2017-2018);
- Monitoring the independent trade operations (2017-2018).

Objective 2. Business liquidation/Closing a company.

- Simplifying procedures and reducing the costs of voluntary liquidation of a business (2017);
- Promoting the draft law amending and supplementing certain legislative acts in order to simplify the business liquidation procedure (2017).

Objective 3. Reducing the number of state inspections.

- Implementation of the institutional framework reform related to the state control in order to optimize the number of institutions empowered with control functions (2017);
- Implementation of the normative framework reform related to the state control in order to reduce the burden of state control over businesses and to maximize the efficiency of control (2017).

Objective 4. Reducing the number of mandatory reports.

- Streamline the statistical and financial reporting process by improving and expanding the single reporting platform (e-reporting) (2017);
- Promote the draft law amending and supplementing certain legislative acts, in order to establish a single Report (2017).

Objective 5. Reducing the number of permits

- Reduce the number of permits issued by the authorities and the number of licensed activities in order to eliminate barriers to entry on the market for new companies and to stimulate competition (2017);

- Review the Nomenclature of Permissive acts issued by the authorities entitled hereto for individuals and legal entities to conduct entrepreneurial activity, approved by Law no.160 of 22 July 2011 regulating the licensing of entrepreneurial activity and approving its new wording - Review of activities subject to licensing according to Law no.451-XV of 30 July 2001 regulating the licensing of entrepreneurial activity (2017).

Objective 6. Digitization of public services provided to businesses (number of services).

- Implementation of the concept on information system for permissive acts management and issuance and the Action Plan for the optimization of permissive acts and implementation of one-stop-shop solutions (2017);
- Implementation of the Strategy on entrepreneurial activity regulation framework reform for 2013-2020. The review and strengthening the mechanism of regulatory impact analysis in the lawmaking process, including in the process of harmonization of the national legislation with the European legislation, banning any approval, without the regulatory impact analysis of the normative and legislative acts affecting private sector (2020);
- Approval of the Action Plan for implementation during 2018-2020, of the Regulatory Framework Reform Strategy for Entrepreneurial Activity for 2013-2020, approved by Government Decision no.1021 of 16 December 2013 (2017).

Priority 4. Reduce energy consumption through increasing energy efficiency and using renewable energy sources.

Objective 1. Ensure security of natural gas and oil supply.

- Diversification of natural gas and oil supply routes and sources: Identification of alternative sources of natural gas supply (2020):
  1. medium and long term suppliers;
  2. exploring the domestic resources;
  3. creation of a competitive market.
- Drafting and approving the Law on mandatory oil stocks (2017);
- Enhancing the energy security in the field of natural gases by ensuring the full operation of Iasi-Ungheni natural gas interconnector (Phase I) (2017-2020);
- Expanding Iasi-Ungheni interconnector to Chisinau (Phase II): drafting the technical document, obtaining construction permits; acquisition of the related land; construction of Ungheni-Chisinau section (2017-2020);

- Strengthening / Rehabilitation of the existing transport system for ensuring natural gas transit (permanently).

Objective 2. Ensuring security of electricity supply.

- The integration of the Republic of Moldova into the European energy market by implementing the priority projects of asynchronous interconnection (2020);

Project (2017-2021):

Station Back-to-Back Vulcănești +  
Line LEA 400 kV Vulcănești – Chisinau:  
completion of the Feasibility Study;  
drafting the technical document;  
obtaining the construction permits;  
acquisition of the adjacent land;  
construction itself.

Project (optional) (2018):

Station Back-to-Back + Line LEA 400 kV Bălți – Suceava:  
updating the Feasibility Study.

Project (optional) (2018):

Station Back-to-Back + Line Romania – Ungheni – Strășeni:  
Drafting the Feasibility Study;

- Rehabilitation of electricity transmission grids of SE“Moldelectrica” (2018);
- Synchronous interconnection of the power system of the Republic of Moldova (along with that of Ukraine) to ENTSO-Enetworks:
  - drawing up the list of actions that will indicate the activities necessary to connect (2017);
  - identification of financing sources necessary and launching the implementation of these actions (2020).
- Strengthening the institutional and organizational framework and electricity market development by harmonizing the national legislation with the European legislation (2017-2018);
- Construction of a new power and heat generation plant in Chisinau Municipality with a capacity of 250 MWe (2020);
- Construction of new generation capacities for 150 MW of electricity from renewable sources (2020).

Objective 3. Creating a strong platform for electricity and heat generation.

- Creating a high performance platform for electricity and heat generation by modernizing "Termoelectrica" (2018);
- Transferring the assets of "Termoelectrica" located in the suburbs to local government authorities (2018);
- Rehabilitation of the heating system in Balti municipality ( "CET-Nord")" (2019);

Objective 4. Improving energy efficiency in sectors of the national economy.

- development, approval and implementation of energy efficiency programs by thermal power operators (2018);
- development, approval and implementation of energy efficiency programs by electric power operators (2018);
- Modernization and renovation of the industrial sector (2020);
- Introduction of energy management and best practices in the industry (2020);
- Developing the legal framework on energy performance of buildings (2018);
- Promoting buildings with nearly zero energy consumption (2020);
- Promoting energy performance contracting in the residential sector (2018);
- Measures to improve energy efficiency in residential buildings (2020);
- Improving energy efficiency and exploitation of renewable energy sources in the public construction sector (2020);
- Financing energy efficiency projects in public lighting systems (2020);
- Promoting energy performance contracting in the residential sector (2020);
- Improving energy efficiency in municipal services / regional water supply and wastewater discharge (2018);
- Promoting energy efficiency in land transport (2020);
- Comprehensive assessment of the potential for high efficiency co-generation and effective district heating and cooling (2017);

- Assessment/updating of the potential for decreasing energy consumption in Moldova (2017);
- Transpose Directive 2012/27/on Energy Efficiency in national legislations and approve the secondary normative framework for the enforcement of the law (2018);
- Promotion of energy performance contracts and energy service company performance contracts (2020);
- Label the energy-related products and implement ecological projects (2020);
- Train experts (including energy audit experts) in energy efficiency, building energy efficiency and renewable energy use (2020);
- Implementation of the National Energy Efficiency and Renewable Energy Communication Strategy (2020).

Objective 5. Use of the sources of renewable energy.

- Organize and hold tenders for power generation from renewable sources to attract investment (2020);
- Confirm the eligible producer status for small investors (2020);
- Promote the use of biomass for energy purposes (set up boilers at public institutions and households, support local solid biofuel production capacity etc.) (2018);
- Promote the use of the heating potential of solar energy (set up collectors at public institutions, support local solar collectors production capacity etc.) (2018);
- Ensure the supervision of the solid biofuel market (to ensure high quality of marketed goods) (2020);
- Develop the secondary regulatory framework concerning biofuels to enforce Law 10/2016 (2017);
- Develop and approve the secondary normative framework concerning Law 10/2016 on Promoting the Use of Energy from Renewable Sources, and enforce it (2017);
- Develop the National Biomass Development Program, train experts in energy production from renewable sources (in particular in the context of relevant legislation concerning the use of energy from renewable sources) (2017);
- Promote the inclusion of the topics of energy efficiency and renewable energy in school curricula (2020);

- Ensure the operation of the Single Information Center for investors in energy efficiency and sources of renewable energy (2020);
- Implementation of the National Energy Efficiency and Renewable Energy Communication Strategy (2020);
- Provide tax and customs incentives to promote the use of energy from renewable sources (2020);
- Develop and publish the Eolian Energy Sources Atlas of Moldova (2017);
- Assess the solar photo-voltaic potential of the roofs of buildings in Moldova (permanently).

Priority 5. Increase the competitiveness of agrifood products and sustainable rural development.

- Develop a study on the promotion of the short food chain and direct trading (2019);
- Create regional competitiveness poles for the economic development of rural areas (2017-2020);
- Establish national wholesale markets (2018-2020);
- Develop a common regional economic agenda of relevant institutions (2017);
- Support the establishment of social enterprises to promote social entrepreneurship, including centers of interest for rural population (2018-2020);
- Support local producers in selling local products, including by participation at fairs (permanently);
- Hold a national Village Restart Campaign, including by promoting business ideas (2017-2020);
- Improving efficiency and cost-effectiveness of government spending agriculture (2020);
- Addressing structural bottlenecks (including dominance of low-value crops, highly fragmented farm structure, cumbersome land and property registration procedures, etc) (2020);
- Attracting more FDI to agriculture-related sectors (2020).

Priority 6. Enhance the competitiveness of the country through industrialization of national economy.



Objective 1: Develop a national industrialization policy.

- Develop an Industry Development Program for 2018-2020 (2017);

Objective 2: Promote the innovation and technology transfer policy

- Implement and monitor the implementation of the National Innovation Strategy for 2013-2020 'Innovations for Competitiveness' (2019-2020).

Objective 3: Attract investment and promote export

- Implement and monitor the implementation of the National Investment Attraction and Export Promotion Strategy for 2016-2020 (2017-2020);
- Attract investors, including strategic ones, to various sectors of Moldovan economy (2017-2020);
- Develop a consistent program of domestic and external events aiming at enhancing competitiveness and promote exporters (2017-2020);
- Optimize institutional capacity for the implementation of investment attraction and export promotion policies (2017);

Objective 4: Support the productive sectors of economy by creating and developing business infrastructure instruments, namely: industrial parks, free economic zones, industrial clusters etc.

- Develop and promote policy papers on establishing/expanding and developing industrial parks, free economic zones and industrial clusters (2017-2020);
- Develop and implement the industrial premises construction program (2017-2020).

IV. A number of elements of mid-term fiscal consolidation (2017-2019) were set:
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- macroeconomic and financial stability, ensuring sustainable economic development'
- public finance and public debt sustainability;
- continuous improvement of tax policy and tax administration, as the core factor of fiscal consolidation;
- enhancing the business environment;
- reducing the shadow sector of the economy and fighting corruption as significant sources of increasing budget revenue;

- continuing the policy of reducing and preventing the occurrence of new arrears, as budget arrears are a potential mid-term risk to fiscal sustainability, further corrective measures will be taken to reduce them;

Also, over the medium term, fiscal consolidation needs to be achieved through structural fiscal reforms. In this context, a number of measures are of paramount importance:

- the public administration reform, to enhance efficiency of the public sector and improve the quality of services delivered to the population. The fiscal decentralization model should be strengthened by tightening sub-national governments' debt limits and consolidating the number of local governments;
- the public social assistance system reform, which is essential to put the pension fund on a sound financial basis, deal with demographic pressures, and reverse the decline in pension benefits relative to wages;
- utility tariffs need to be adjusted to cost-recovery levels to avoid further build-up of arrears with energy suppliers and ensure an adequate level of investment in the sector;
- steady implementation of structural reforms, which is critical to boost potential growth and reduce poverty. The National Development Strategy—Moldova 2020 aims at an appropriate shift to a medium-term growth model based on raising investment and increasing productivity and competitiveness. In order to achieve these goals, special attention needs to be paid to improving the business environment, physical infrastructure, and human resources development. Refocusing the education system to labor market needs would play an important role in raising productivity, job creation and reversing migration trends.
- review of all tax exemptions in order to eliminate inefficient ones and those which have lost their actuality, as well as in the context of implementation the commitments of RM-EU Association Agreement.

#### V. Public Expenditures Policy Objectives

In the context of ongoing fiscal reform, the need for fiscal consolidation remains the key objective, with a view to avoid risks related to domestic and external shocks, as well as dependence on external financial assistance.

Key objectives of the mid-term public expenditure policy are:

- ensure better allocation of funds by strengthening strategic mid-term planning and implementing program and performance budgeting at all levels of public administration;

- prioritize public spending by reallocating available resources to priority programs, optimal allocation of resources between recurrent and capital expenditures, improving the budget planning and reporting mechanism and enhancing the transparency of the use of public funds;
- increase the effectiveness and efficiency of recurrent expenditure programs by better resource management, continued sectoral reforms and progress analysis against set objectives;
- increase transparency and public access to public finance management information by continued promotion of public administration and public sector reforms, including using modern informational technology;
- maintain the strict control over employment in the budgetary sector to prevent future commitments without coverage from available resources, as well as by improving and increasing the efficiency of the wage system;
- better planning and improved capital investments management are necessary for identification of investment projects with major social-economic impact as well as reduction of costs incurred with planning and implementation of capital investment projects.

In public procurement, the main problems remain linked to the improvement of secondary legislation, including by setting a mechanism of reviewing complaints, promotion and subsequently implementation of the Public Procurement System Development Strategy for 2016-2020.

#### VI. State Debt Policy Objectives

- maintaining of mid-term and long-term state debt costs at an acceptable level;
- the external state debt policy will focus on mid-term and long-term external borrowing while keeping an adequate cost-risk ratio;
- the domestic public debt policy will be targeted towards furthering development of the domestic state securities market;
- strengthen communication with the participants in the state securities market;

#### VII. Risk mitigation

Moldova is vulnerable to a number of risks and natural tendencies that affect agriculture, thus threatening rural income, including erosion, landslides, droughts, storms with heavy rain, hail, frost, floods and earthquakes. Weather phenomena in Moldova stretch over the widest

range of chronological periods and statistical distributions, from regional devastating droughts to losses caused by hail; therefore, the productivity of Moldova farms has decreased significantly over the last decades.

According to most hazard experts, these phenomena are the result of climate change at the global and regional level, and their frequency, intensity and severity is increasing. Annual natural disaster related losses range from 2 percent of GDP in the richest countries to 13 percent of GDP in the poorest countries.

Given the destructive impact of droughts and the expansion of the areas hit by it, accounting for 1/4 of the total land surface of the Earth, this phenomenon has come to be considered the second - after pollution - environmental risk in terms of scale and stability.

Droughts in Moldova is among the most dangerous natural phenomena, being specific to the regional climate, and conditioned by the uneven distribution in time and space of rainfall on the backdrop of high air temperature.

Of all weather phenomena, droughts can be considered the most complex since they are determined by a number of factors, namely: rainfall, water reserves in the soil that are accessible to plants, moisture and air temperature, evaporative transpiration, wind speed etc., which are the main climatic parameters defining the dry spells or droughts. Droughts in Moldova are periods without rain for at least 14 consecutive days during the cold months of the year (October to March) and at least 10 days during the warm months of the year. Although droughts can occur throughout the year, most occur in late summer and early autumn.

Meteorological drought involves long term prevailing of evaporation over rainfall paired with high temperatures that are sufficient for the initial soil moisture at the beginning of the vegetation period to get to zero.

Such anomalies are related to lengthy periods of anticyclonic weather and are referred to as atmospheric droughts.

Soil droughts are determined by scarce humidity that affects vegetation growth and the harvest. Droughts cause major losses of agricultural production. Drought have been particularly severe in the past, especially when they occurred two or three years in a row.