



10th of May 2006

The Policy brief was written as desk study, at the request of Sida Natur (att:Göran Bergman) by Olof Drakenberg at the Environmental Economics Unit (EEU), Department of Economics, Göteborg University as part of Sida-EEU's institutional collaboration on environmental economics and strategic environmental assessment. The aim of the policy brief is to serve as a starting point for a discussion on how environment can be integrated in the Swedish cooperation strategy for Moldova. The views expressed in this Policy brief are those of the author and do not necessarily represent the views of Sida.

Summary

Moldova's poor are heavily dependent on natural resources and a clean environment for food, water and good health.

The main environmental problems are polluted waters and degraded soils causing environmental degradation and bad health.

Key causes of environmental degradation include; i) washout of agro-chemicals ii) lack of wastewater treatment, iii) lack of waste management and iv) old technology used in transports and industry.

Corruption is high and the capacity for monitoring and implementing environmental policies and frameworks is weak¹.

Poverty and environment

Moldova is the poorest country in Europe with a poverty rate of approximately 30 %. The poor are highly dependent on natural resources. 65% of the extreme poor are either farmers or agricultural workers². Together with agriculture, the food and beverage industry account for one third of GDP and 58 % of exports³.

Intensive exploitation of agricultural lands⁴ and use of old, polluting technology in agriculture, energy and industry are the main causes of environmental degradation. Insufficient waste management and lack of waste water treatment further aggravates the environmental situation. This reduces productivity due to declining quality of water resources, air, soils and eco system services⁵.

According to the Government, soil degradation is the major environmental problem. Soil loss due to erosion, landslides and decreased soil productivity (nutrient losses etc) cause annual damage to the economy at about 3,1 billion Lei annually or more than 10 % of GDP⁶. Main causes of the soil degradation include poor cultivation technologies, insufficient crop rotation, lack of soil conservation and deforestation.

¹ GoM Millennium Development Goals in the Republic of Moldova (2004), EU Country Environmental Profile (Annex in Moldova Country Strategy Paper draft 5, February 2006)

² GoM EGPRSP (2004)

³ European Bank for Reconstruction and Development (2005)

⁴ During the Soviet era the use of agrochemicals were much more intense. Since the early 1990's use of fertilizers has dropped by more than 90 % and the situation for pesticides is similar (State of the Environment 2004).

⁵ EGPRSP (2004)

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More than 50% of the population consume polluted water⁷ and 70 % of children in rural areas are affected by high fluorine levels⁸. Main causes of water pollution include; domestic waste water discharges, washout of chemicals from dumps and stored agro-chemicals (including DDT) and agricultural activity in water protection areas.

Health and the Environment

Water supply and sewerage systems have degraded during the last decade. The rural poor, mostly reliant on wells, are most affected by degraded water quality leading to increased morbidity⁹. 1995 estimates indicated average annual costs resulting from water pollution in the order of US\$ 60-115 million due to premature deaths and US\$ 6-12 million due to illness¹⁰ which is more than the total national health care expenditure in the late 1990's¹¹. Former chemical sites and soils surrounding old pesticides storages remain a serious health hazard.

The government plans to increase access to safe water from 38 % in 2002 to 68 % in 2006 and to increase access to improved sewerage from 40 % in 2001 to 90 % in 2006.

Air pollution in larger cities causes respiratory diseases, allergies and lung cancer. Emissions from the transport sector increase whereas emissions from power plants and industry are decreasing¹². Old vehicles, old technology and use of low quality fuels cause pollution levels to exceed national norms in the major cities.

Economic Policy and Environment

The transition of the Moldovan economy has increased poverty, lower economic activity and reduced maintenance of infrastructure. Industrial closures and cut-downs of agricultural subsidies have reduced pollution emissions to water, soil and air. At the same time increased poverty has contributed to illegal cutting of forests, use of obsolete technology, poor energy efficiency and under investment in basic infrastructure such as water, roads, energy etc.

The economic recovery in Moldova in recent years has been fuelled by labour migration and remittances. The national development plan (Economic Growth Poverty Reduction Strategy Paper) sets out to move towards a locally based import substitution and export led growth. Private sector development, investments in infrastructure and processing industry and improved political and economic governance are seen as key components in the strategy.

The EGPRSP includes efforts to improve tariffs and increase tariff collection in the areas of energy and water. Moldova imports 98% of its energy needs and is heavily dependent (80%) on natural gas supplies from Russia. Privatisation is seen as mean to improve energy sector efficiency. Recent prize increases (2005-2006) makes energy conservation a priority.

The role of agriculture is projected to decrease but exports derived from agriculture, food and beverage are likely to remain important. The EGPRSP also aims at reducing soil degradation and projects promoting organic farming for exports.

⁷ GoM Millennium Development Goals in the Republic of Moldova (2004)

⁸ SOE (2004)

⁹ 67 % of rural water pipelines do not meet hygienic standards. 80% of wells and 50 % of springs are unfit as drinking water. EGPRSP

¹⁰ World Bank (2000)

¹¹ European Observatory on Health Care Systems (2002)

¹² Lower emissions levels from both industry and transports can be explained by lower economic activity during economic crises. After the economic upturn in 2002 emissions from transports increased substantially but industrial emissions continued downwards. SOE (2004)

Institutional capacity, Corruption and the Environment

Generally, justice, law and order are beneficial for sustainable management of environmental resources. Moldova has established an inclusive policy framework for environmental management; the law on Environmental protection in 1993, National Action Plan for Environmental Protection (1996) and Strategy on Environmental Policies (2001). Environmental Impact Assessments (EIA) are required and hundreds of EIAs are carried out annually in Moldova¹³.

Moldova is party to all of the eight international environmental conventions that Sida are giving specific attention to.

Institutions lack capacity for enforcing legislation and local authorities often fails to implement the policy. Monitoring has improved but does not meet national and international requirements¹⁴. Moldova's ranking in the Transparency International's Corruption Perception Index has improved since 2000 but is still considered rampantly low.

Issues for Sida to consider

Environment is not a sector. The question for Sida is: What does it mean to integrate the environment and sustainable use of natural resources in the sectors of Swedish priority? Or put differently. What can be done within these sector programmes to maximize positive impacts on ecosystem services and natural resource assets and to minimize the negative impacts?

Division of labor

What does the division of labor within the donor group look like when it comes to environment sector and for mainstreaming environment in all sectors?

How can Sweden support the work of the Environment and Natural Resource sector leads (towards the leads directly, towards the government, within the "Swedish" sectors)?

Revenue mobilisation

Could the use of environmental fiscal reforms be considered to improve revenue mobilization? The planned review of tariffs and tariff collection could provide an opportunity.

Is there a need for improved capacity related to environmental fiscal reforms?

Privatisation

How is environmental liability assessed and apportioned in privatization operations? Generally, privatization is positive for the environment because of increased efficiency of inputs¹⁵.

¹³ UNECE (2006) However we have not found comments related to the *quality* of these assessment. In an environmental performance review in 2000, UNECE called for more systematic use of EIAs and greater stakeholder participation.

¹⁴ SOE (2004) and EU Country Environmental Profile

¹⁵ Environmental liabilities pertaining to polluted waste sites etc are important to sort out before privatisation. See World Bank (2004).

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