

MOLDOVA
RESULTS AND THE WORLD BANK

December, 2006

CURRENCY EQUIVALENTS
(Exchange Rate Effective August 31, 2006)
Currency Unit = Leu
US\$1 = 13.3 Lei

FISCAL YEAR
January 1 to December 31

WEIGHTS AND MEASURES
Metric System

ACRONYMS AND ABBREVIATIONS

AAA	Analytic and Advisory Activities	MCC	Millennium Challenge Corporation
AER	Annual Evaluation Report	MDGs	Millennium Development Goals
HIV/AIDS	Human immunodeficiency virus/Acquired Immunodeficiency syndrome	M&E	Monitoring and Evaluation
BEEPS	Business Environment and Enterprise Performance Survey	MOE	Ministry of Economy
CAE	Country Assistance Evaluation	MOF	Ministry of Finance
CAS	Country Assistance Strategy	MTEF	Medium-Term Expenditure Framework
CAS PR	Country Assistance Strategy Progress Report	PAR	Poverty Assessment Report
CIS	Commonwealth of Independent States	PBA	Performance-Based Allocation
CPIA	Country Performance Indicator Assessment	PD	Program Document
DFID	UK Department for International Development	PEFA	Public Expenditure and Financial Accountability Assessment
EBRD	European Bank for Reconstruction and Development	PFM	Public Financial Management
EGPRSP	Economic Growth and Poverty Reduction Strategy Paper	PFR	Public Financial Review
EMAP	EU-Moldova Action Plan	PDF	Development Partnership Framework
ENP	European Neighborhood Policy	PPG	Public and Publicly Guaranteed
ESW	Economic and Sector Work	PRGF	Poverty Reduction Growth Facility
EU	European Union		
FDI	Foreign Direct Investment	PRSC	Poverty Reduction Support Credit
GDP	Gross Domestic Product	PRSP	Poverty Reduction Strategy Paper
GEF	Global Environment Facility	QAG	Quality Assurance Group
IBRD	International Bank for Reconstruction and Development	SIDA	Swedish International Development Cooperation Agency
IDA	International Development Association	SWAPs	Sector-Wide Approaches
IEG	Independent Evaluation Group	TA	Technical Assistance
IFC	International Finance Corporation	UK	United Kingdom
IMF	International Monetary Fund	UN	United Nations
ISR	Implementation Status and Results report	UNDP	United Nations Development Program
JSAN	Joint Staff Advisory Note	USAID	United States Agency for International Development

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RESULTS AND THE WORLD BANK

MOLDOVA

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RESULTS AND THE WORLD BANK MOLDOVA

I. INTRODUCTION

1. The World Bank has moved in recent years, together with the rest of the development community, to place a stronger focus on the results of its programs. The Millennium Development Goals were adopted five years ago with specific, tangible global development targets by 2015.¹ A joint statement by the heads of the Multilateral Development Banks (Monterrey, March 2002) underscored this commitment.² A series of gatherings, culminating in the Paris High-Level Forum on Aid Effectiveness (March 2005) brought together a range of stakeholders—bilateral agencies, multilateral institutions, and developing country partners—to address the aid effectiveness agenda.³ Commitments of additional development finance, such as at the G8 Gleneagles Summit (July 2005) have emphasized the need for effective coordination and the delivery of tangible results to people on the ground. IDA-14 has introduced an explicit performance-based allocation system for access to IDA resources.⁴

2. ***Purpose of this report.*** This report describes development results in Moldova, with particular reference to the World Bank's program since July 2004. It is the first in a planned series of annual reports. It is intended to inform discussions with the government, with development partners, as well as with management and staff internally within the Bank.⁵ The form and content of the reports are expected to evolve in the light of feedback from the government and partners, as well as future experience in implementation.

3. ***Structure of report.*** The report is structured as follows. Section II summarizes Moldova's progress on a range of economic and social development dimensions since July 1, 2004.⁶ Section III summarizes the Bank's strategy for engagement in Moldova, progress with its implementation, and a selection of qualitative and quantitative indicators of performance. Section IV assesses the links between country-level achievements and the IDA program. Finally, Section V sets out overall conclusions and actions planned to build national capacity to manage for results through our engagement with the government and other stakeholders, while strengthening the results dimensions in the Bank's own activities in the coming year.

¹ See <http://www.un.org/millenniumgoals/>.

² See *Final Outcome of the International Conference on Financing for Development* (Monterrey Consensus).

³ The Paris Declaration focuses, inter alia, on issues of aid quality and results, including identifying measures to support increased aid effectiveness, and monitoring process improvements. See www.oecd.org/dac/effectiveness.

⁴ Among the principal determinants of each eligible country's allocation are performance of the existing portfolio of credits/grants, and the Country Policy and Institutional Assessment ratings.

⁵ The report will also be published on the Bank's website. See www.worldbank.org/md.

⁶ For some areas, indicators from previous years are also provided to facilitate understanding of progress over time.

II. COUNTRY ACCOMPLISHMENTS

4. **Economic situation.** Since 2000 and after a decade of economic decline and rising poverty, Moldova has managed to maintain macroeconomic stability, achieve growth, and reduce poverty. Annual growth has averaged seven percent over the last six years. Fiscal management has been prudent, with a roughly balanced budget in recent years. Inflation has remained steady at around 12 percent annually over the past three years. Public debt has fallen sharply, from 77 percent of GDP in 2001 to 28 percent in 2005, and arrears have been cleared as part of a recent rescheduling agreement with the Paris Club. External shocks in 2006, however, underscore remaining structural vulnerabilities. Russia's ban on imports of wine, crops and meat from Moldova and increases in energy prices threaten economic growth, and pose challenges to fiscal and external balances. Table 1 provides a summary of key economic indicators.

TABLE 1. MOLDOVA: MACROECONOMIC FRAMEWORK, 2001-2006

	Actual			2004	Estimated 2005	Projected 2006
	2001	2002	2003			
Real GDP growth (%)	6.1	7.8	6.6	7.4	7.1	3.0
CPI Inflation (average, %)	9.8	5.3	11.7	12.5	11.9	12.3
Exchange rate (average, MDL/\$)	12.9	13.6	13.9	12.3	12.6	..
Real effective exchange rate, %	-1.2	-6.1	-5.4	12.8	-1.3	1.8
Revenues and grants, % of GDP	29.2	29.6	34.0	35.4	39.5	40.3
Expenditures and net lending, % of GDP	29.4	31.5	33.3	34.6	37.9	40.3
Primary balance (cash), % of GDP	3.8	0.7	2.3	2.7	3.0	1.3
Overall balance (cash), % of GDP	-0.4	-1.4	0.2	0.8	1.7	0.0
Current account balance, % of GDP	-2.5	-4.6	-7.1	-2.0	-8.3	-10.4
Exports G&S growth (percent)	14.7	19.1	20.9	27.4	13.3	2.1
Imports G&S growth (percent)	12.0	18.9	33.5	22.8	29.1	18.1
Gross official reserves (months of imports)	2.1	1.9	1.7	2.1	2.2	2.3
Total External debt/GDP, %	105.1	100.8	88.7	63.8	54.7	51.6
of which, public and publicly guaranteed (PPG)	77.0	61.1	52.5	35.6	28.7	24.1
External Arrears (millions \$US)	17.5	42.9	86.1	50.6	56.3	0.0
PPG debt service to exports of GNFS, %	24.6	27.9	19.8	21.0	20.3	16.7
PPG debt service to revenues, %	59.5	52.8	34.7	25.2	17.7	14.9

Sources: Moldovan authorities (MTEF), IMF Article IV Staff Report, December 2006.

Fiscal accounts in the table are for those of the general government.

5. **Poverty profile.** A deep and prolonged recession through the 1990s made Moldova the poorest country in Europe. By 1999, over 70 percent of Moldovans were poor, with over 60 percent extremely poor. Moldova's social indicators, a measure of non-income dimensions of poverty, were considered among the worst in the region. Economic recovery has led to a massive reduction in income poverty. Between 1999 and 2005, the national poverty rate fell from 73 percent to 28.5 percent, marking the largest absolute decline in poverty in Europe and Central Asia over this period (see Table 2). Starting from 2004, however, economic growth has no longer been associated with poverty reduction. For the first three quarters of 2005, poverty increased in rural areas. Furthermore, no progress was achieved along non-income dimensions of poverty, with persistent or increasing disparities in access to education and health care.

6. Moldova's development agenda.

Moldova's development agenda is set out in the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) endorsed by boards of the Bank and the Fund in November 2004, and in the EU-Moldova Action Plan (EMAP) that was signed in February 2005. The EGPRSP set the key strategic priorities of sustainable and broad-based economic growth, reduction of poverty and inequality, and increased participation of the poor in economic development and human resource development. It provided a framework against which progress in program implementation can be monitored, with EGPRSP development objectives linked to MDGs. The EGPRSP also influenced the development of the EMAP, which is fully consistent with EGPRSP on economic reforms, while providing a broader scope that also covers issues of political cooperation.

7. **Progress on development agenda.** In April 2006, the first Annual Evaluation Report (AER) of the EGPRSP was prepared and discussed by the boards of both the Bank and the Fund, together with the Joint Staff Assessment Note (JSAN). Among the key achievements noted were strong economic growth, substantial reduction in poverty, improved management of public finances, significant reductions in debt, the launch of an ambitious program to reform public administration, and improved partnerships between the government and the international community. Challenges remain in improving the quality and sustainability of growth, addressing a recent poverty increase in rural areas, strengthening efficiency of public spending, improving the targeting of social assistance, raising the quality of infrastructure, and carrying out reforms in key sectors such as agriculture and energy. The first progress report on EMAP is scheduled to be published by the European Commission before the end of 2006.

8. **MDG status.** Assessing progress toward achieving the MDGs in Moldova is complicated by the lack of consistent data and baselines across sources. According to a review prepared by the ECA region of the Bank, Moldova showed modest progress on most of the MDG targets⁷. In common with most lower-income CIS countries, achieving the MDGs is challenging for Moldova, with only MDG3 (gender equity) assessed as on track and four goals at risk of not being achieved (education, child mortality, prevention of the spread of HIV/AIDS and other diseases, and access to water). The poverty reduction (goal 1) and maternal mortality (goal 5) MDGs have been assigned yellow

TABLE 2: AN OVERVIEW OF POVERTY IN MOLDOVA

(In percentage points, unless labeled otherwise)

	1999	2002	2003	2004	2005 a/
National poverty rate	73.0	40.4	29.0	26.5	28.5
Large Cities	50.4	28.6	22.7	17.3	14.7
Small Towns	80.9	62.3	49.4	45.7	48.5
Rural Areas	76.9	51.0	35.7	37.1	42.5
GDP growth rate	-3.4	7.8	6.6	7.4	7.1
Gini coefficient	0.396	0.372	0.356	0.361	0.375

a/ 2005 Q1-Q3;

Sources: World Bank & National Bureau of Statistics.

⁷ See *Millennium Development Goals – Progress and Prospects in Europe and Central Asia, World Bank 2005* (available also at <http://devdata.worldbank.org/gmis/mdg>).

flags (i.e., too difficult to tell), although, as noted in Table 2, there has been significant progress on income dimensions of poverty⁸.

TABLE 3: MOLDOVA: PROGRESS TOWARD ACHIEVING MDGs –SELECTED TARGETS AND INDICATORS, 2000-2005

	2000	2005 level	2006 target
Goal 1: Halve between 1990 and 2015, the proportion of people whose income is less than \$2.15 a day			
<i>Proportion of population living on less than \$2.15 a day (PPP, % of population)*</i>	45	11.4 (2004)	28
Goal 2: Universal secondary education			
Enrollment rate in gymnasium education (net, %)	87	84.5	88.9
Rate of literacy of population aged 15-24 years (%)	99.8	99.9	100
Goal 3: Gender equity – Advance women’s participation in social and political life			
Share of women as leaders and high officials in public administration, economic and social units	33.2	38.8	45
Share of seats held by women in national parliament	7.9	22	20
Goal 4: Child mortality (reduce under-5 mortality by two-thirds)			
Under-5 mortality rate (per 1,000)	23.3	15.7	15
Goal 5: Maternal mortality (reduce maternal mortality by three-fourth)			
Maternal mortality ratio (per 100,000 live births)	27.1	18.6	23
Goal 6: Halt and begin to reverse the spread of HIV/AIDS and other major diseases			
Incidence of HIV/AIDS	4.1	13.3	3.23
New cases of active tuberculosis (per 100,000 people)	69.9	130.5	57.9
Goal 7: Halve the proportion of people without sustainable access to basic needs			
Access to an improved water source (% of population)	37.8	44.5 (2004)	47.7
Access to improved sanitation facilities (% of population)	41.1	43.6 (2004)	56
Goal 8: Develop a global partnership for development			
Fixed and mobile telephone lines (per 100 people)	16.6/3.3	27.3/32.2	n/a
Internet users (per 100 people)	1.2	12.3 (2004)	n/a

Source: The Republic of Moldova: The Quality of Economic Growth and Its Impact on Human Development, UNDP 2006

* The rate of poverty in the table is calculated at the international poverty line of \$2.15 per person/ day. It is different from the rest of the report where the national poverty rate is used.

⁸ *Ibid.* In assessing progress toward the MDGs, it needs to be kept in mind that although MDGs is a widely accepted framework for measuring development progress, Moldova, similarly to other ECA countries, has some unique features and requires special consideration as use of some targets and indicators may not be appropriate (e.g., 1990 as a baseline for measuring progress given the turmoil in the region at that time; the \$1 a day poverty line given the high spending on heat, winter clothing, and food; maternal/female infection as the majority of reported HIV/AIDS infections are among young people; and child mortality rates given high adult mortality rates, etc.).

9. According to the MDG framework adapted by Moldovan authorities where 2000 is used as a baseline year and intermediary targets set against 2006 and 2010, significant progress has been registered in eliminating poverty, reducing child mortality and improving maternal health, while there has been lack of progress on AIDS and TB targets⁹. However, as intermediary and final targets for many indicators have not been established, baselines for some indicators have not been set realistically and some indicators for monitoring progress are not calculated at all, it makes it difficult to evaluate the long-run likelihood of achieving the MDG goals.

10. The Government's new EGPRSP for 2008-2010 should address how the Government, in collaboration with the Bank, UNDP and other donors, will work toward aligning baselines, indicators, and targets toward a commonly-accepted framework, and divide responsibilities for a unified effort in monitoring and evaluating progress against targets.

11. **Policy and institutional developments.** The EGPRSP identified private sector development as one of the key drivers of economic growth. Recognizing this, the government started focusing its development agenda on the quality of the investment climate and business environment. In recent years, progress was made in implementing regulatory reform. However, Moldova's business environment remains highly regulated and costly. For example, the 2007 Doing Business survey showed that Moldova's overall rating on the ease of doing business declined from 88th to 103rd, reflecting remaining inefficiencies in the business environment, particularly in the area of construction licenses and permits (see Table 4), and a slower pace of reforms relative to other countries, particularly in the CIS.¹⁰

12. Notwithstanding efforts and improvements to date, governance remains a major challenge. Slow progress in judicial reform, property rights enforcement, and corporate governance are of concern.

According to the Transparency International 2006 Corruption Global Barometer, corruption is perceived as a major issue, with the main perceived area of high corruption being the customs service. According to the 2005 BEEPs, the customs, government procurement, business licensing, and tax still are perceived as areas with the highest levels of corruption.

TABLE 4: EASE OF DOING BUSINESS IN MOLDOVA AND SELECTED LOWER MIDDLE-INCOME COUNTRIES, 2005-2006 (ranking among 175 countries worldwide)

	EDB 2006	EDB 2005	Change in Rank
Armenia	34	37	+3
Georgia	37	112	+75
Moldova	103	88	-15
Romania	49	71	+22
Ukraine	128	132	+4

Source: Doing Business 2007.

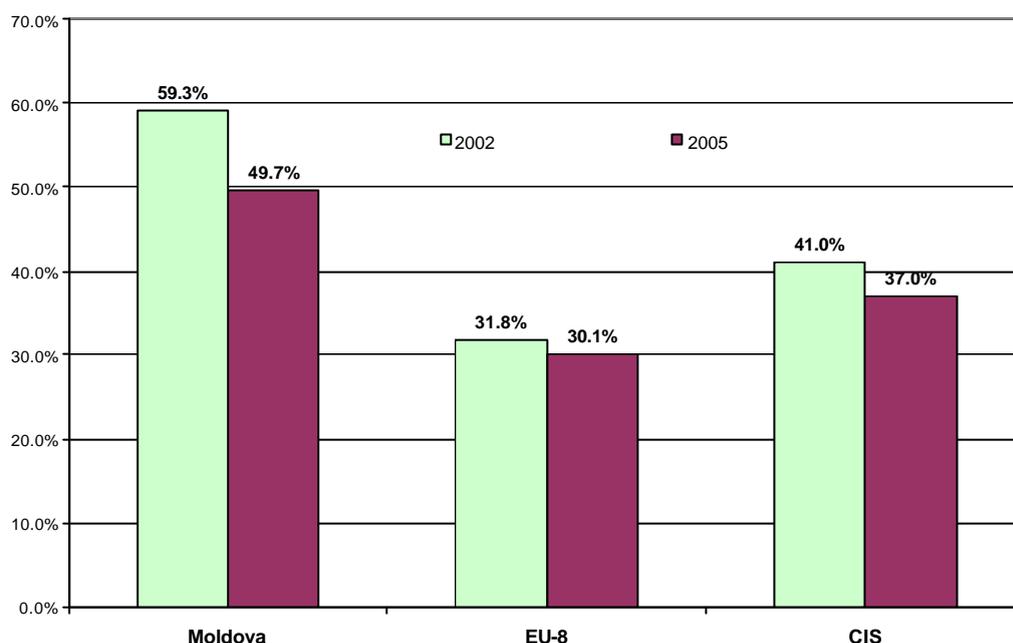
13. The government's efforts to establish a track record of reform are reflected in the Bank's Country Policy and

⁹ The Republic of Moldova: The Quality of Economic Growth and Its Impact on Human Development, UNDP 2006.

¹⁰ See www.doingbusiness.org.

Institutional Assessment (CPIA) ratings, which have improved steadily over the last several years (from overall 3.2 in 2004 to 3.5 in 2005, on a six-point scale), including in the governance cluster. In an encouraging sign, there has been no downgrade in the last three years.

CHART 1. PERCENTAGE OF FIRMS THAT CONSIDER CORRUPTION A PROBLEM FOR BUSINESS, 2005 VS. 2002



Source: *Anticorruption in Transition 3 – Who is Succeeding ... and Why?*, World Bank 2006

14. **Coordination of external assistance.** Although Moldova has established a mechanism for coordinating external assistance, it is fragmented, a problem common to many countries. In an effort to more effectively manage external assistance, the Office of the First Vice Prime Minister was given responsibility for overseeing the coordination functions currently assigned to the Ministry of Economy and Trade and the Ministry of Finance. Outside of this arrangement, the Ministry of Foreign Affairs coordinates assistance provided by the EC. The Government should simplify the current arrangement by reducing the number of institutions involved. The Bank and other donors could support this effort by sharing the lessons of experiences of other countries in this area.

15. **Moldova's capacity to manage for results.** Moldova's results framework is underpinned by the two main mid-term development documents—EGPRSP and EMAP—that combine both the medium-term strategy with the platform for advancing the long-term EU integration agenda. Moldova has started to strengthen its results focus in strategic planning, expenditure management and building national capacity for results-

based M&E (approval of EGPRSP, introduction of the MTEF and performance-based budget programs, establishment and strengthening of the policy coordination mechanism).

Nevertheless, capacity to measure progress remains constrained as the national results monitoring framework fall short in strategic planning, public expenditure management, M&E systems and statistical capacity. National development priorities articulated in the EGPRSP are poorly aligned with MTEF and budgetary allocations.

16. The government has been focusing on bringing the MTEF in line with EGPRSP priorities by continuously expanding MTEF coverage. In 2006, the MTEF was expanded to include agriculture (that used to cover health, education, and social protection sectors), while the 2007-2009 MTEF has a technical annex on public investment spending.

17. The government has also taken steps to increase strategic focus of the annual budgets by better synchronization of the MTEF planning with the annual budget cycle and monitoring and assessment of EGPRSP. Starting in 2004, the performance-based expenditure analysis has been included into the annual budget execution reports. Also, starting from the 2007, the annual budgets will be informed by the MTEF framework approved by the Government and submitted to Parliament in advance of the budget finalization.

18. Finally, among the other steps aimed at building stronger links between the policy priorities of the government and the MTEF, the government has been working to strengthen its central policy coordination function. Performed presently by the Ministry of Economy - policy coordination function, monitoring and reporting to the Parliament on the implementation of the EGPRSP objectives is planned to be brought to the level of the Cabinet of Ministers, which will be responsible for developing a proposal on policy framework as a guiding document for the MTEF.

19. **National monitoring and evaluation systems remain at an early stage.** The government reports annually on the EGPRSP and bi-annually on the MDGs. The

TABLE 5: MOLDOVA 2005 COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT RATINGS

	Moldova	Average IDA Borrowers
Cluster A: Economic Management	3.3	3.5
Macroeconomic Management	3.5	3.8
Fiscal Policy	3.5	3.4
Debt Policy	3.0	3.4
Cluster B: Structural Policies	3.7	3.4
Trade	3.5	3.8
Financial Sector	3.5	3.1
Business Regulatory Environment	4.0	3.3
Cluster C: Policies for Social Inclusion/ Equity	3.8	3.3
Gender Equality	4.5	3.5
Equity of Public Resource Use	3.5	3.4
Building Human Resources	4.0	3.4
Social Protection and Labor Policies and Institutions for	3.5	3.2
Environmental Sustainability	3.5	3.1
Cluster D: Public Sector Management and Institutions	3.2	3.1
Property Rights and Rule-based Governance	3.5	2.9
Quality of Budgetary and Financial Management	3.5	3.2
Efficiency of Revenue Mobilization	3.0	3.4
Quality of Public Administration	3.0	3.0
Transparency, Accountability and Corruption in the Public Sector	3.0	2.9
Overall CPIA	3.5	3.3

Source: <http://www1.worldbank.org/operations/IRA/ICA/>

baseline data for EGPRSP is available only partially. The M&E function is fragmented between the Ministries of Economy and Foreign Affairs, which monitor and report separately on implementation of the EGPRSP and the EMAP. The Macroeconomic Policies Department within the Ministry of Economy, which is responsible for poverty monitoring and for coordinating M&E of development programs, has made the first steps in consolidating EGPRSP and MDG monitoring into a single report embedded into national decision-making processes by establishing the integrated database of strategic economic and social development indicators.

20. The quality and availability of poverty-related data is weak. The government has implemented a statistical development strategy, the 2004-06 Master Plan, aligned with the EGPRSP, to improve statistical activities of all government institutions. Most components of the Master Plan have been funded by external partners, including IDA, the EC, DFID and SIDA. Improvements have been achieved in social statistics, including household budget surveys, and education and agriculture statistics.

21. At the same time, Moldova is learning to use results information for learning and decision-making. The EGPRSP AER has become the effort to share performance information with country constituencies (civil society, private sector). Mechanisms for participatory implementation of the EGPRSP, involving the government, national stakeholders and external partners, have been built into the government structures through wide participation of different stakeholders in policy formulation, implementation, and monitoring and evaluation. More needs to be done (i) to improve feedback mechanisms to gather stakeholders' perspectives on what is working and what is not working in the national development strategies and (ii) to use this feedback to adjust strategies and improve progress towards results.

III. BANK ENGAGEMENT IN MOLDOVA

22. **Country Strategy.** The Country Assistance Strategy (CAS) for the period FY05 through FY08 was discussed by the Bank's Board in December 2004, following the government's approval of the EGPRSP.¹¹ It set as goals sustaining economic growth; improving access to and quality of public services; better targeting of social assistance; and addressing governance shortcomings. The CAS was prepared against a background of uneven implementation of previous Bank programs.¹² Reflecting the lessons of this experience, the CAS adopted a cautious approach to lending, with a strong emphasis on interventions at the level of communities. Maintenance of a stable macroeconomic framework and fiscal discipline, public sector reform and governance, improving the business environment, furthering pension reforms, and promoting market-oriented agricultural sector policies were identified as key reform triggers that provided the basis for evaluating reform progress to allow scaling up of IDA engagement through

¹¹ See *Moldova: Country Assistance Strategy*, IDA/R2004-0269, November 12, 2004, and *Moldova: Country Assistance Strategy Progress Report*, October 18, 2006, Report No 37316-MD.

¹² IEG's country assistance evaluation in 2004 of the Bank's assistance for 1993-2003 rated its outcomes as unsatisfactory, having low sustainability and modest institutional development impact. It recommended to avoid policy-based lending until stronger government commitment to reforms became evident, and to focus on investment lending in the social sectors. See *Moldova Country Assistance Evaluation*, October 22, 2004, Report No. 28981.

resumption of the policy-based lending. The recent CAS Progress Report noted progress made in key areas, including the high-case triggers.¹³ Going forward, it identified opportunities to increase impact through the resumption of policy-based lending together with other donors, a stronger focus on aid effectiveness, and further investment in infrastructure.

23. **Lending program.** The portfolio as at November 1, 2006 comprises one PRSC and 15 investment operations, including two full-size GEF projects, with a total commitment of US\$191.3 million, of which US\$124.0 million (64.8%) remains to be disbursed. The portfolio is dominated by projects in the infrastructure and human development sectors, and during the remaining two years of the current CAS period, this focus will continue. All IDA and GEF operations currently under implementation are proceeding satisfactorily. Project performance is satisfactory in terms of implementation progress, with the disbursement ratio consistently exceeding 20 percent annually, aided by the new country financing parameters approved on February 1, 2005.

24. The EGPRSP and EMAP underpin the Bank's engagement for the remainder of the CAS period. A new PRSC program designed as a vehicle to improve the quality of economic growth and accelerate poverty reduction, emphasizing the areas of the unfinished policy reform agenda (including efficiency of public spending, social assistance targeting, refining of the MTEF) was approved in October 2006.

25. **IDA allocations have been increasing.** The new IDA Performance-Based Allocation (PBA) system was introduced during the CAS period, starting in FY06. Moldova's first year allocation, for FY06, was less than had been foreseen in the base-case. In addition, the shift to the PBA meant that achieving the high-case triggers would not lead to the 50 percent increase in IDA allocations foreseen in the original CAS document. A partial compensation was that Moldova qualified for 50 percent grants for those operations approved in FY06.¹⁴ Improvements in portfolio implementation and CPIA ratings in FY06 led to an increase in the allocation for FY07 and the tentatively projected allocation for FY08, but these remain below the initially foreseen high-case levels. The presently foreseen IDA allocation for FY07 and FY08 is SDR 45.3 million.¹⁵ This is subject to change once the PBA for FY07 is completed. Assuming that it remains unchanged, Moldova's total IDA allocation during the CAS period would be US\$118.4 million equivalent, compared to projections of US\$90 million and US\$137 million respectively under the now-replaced base- and high-case scenarios set out in the original CAS document. With CPIA ratings and portfolio performance now being the principal determinants of the PBA, they form a significant portion of the results agenda on which the Bank will work with the government in the coming years.

26. **Quality of Bank program.** Internal measures of the quality of the Bank's work¹⁶ suggest that it has been improving over the last two years. The only project evaluated by

¹³ See *Moldova: Country Assistance Strategy Progress Report*, October 18, 2006, Report No 37316-MD

¹⁴ Moldova's significantly improved debt situation means that it will no longer qualify for grants from FY07.

¹⁵ Amounts to US\$67 million at an exchange rate of SDR1 = US\$1.48. Of this, SDR26.6 million is confirmed for FY07, while SDR18.7 million is indicative allocation for FY08.

¹⁶ Quality is measured through the Quality Assessment Group (QAG), such as quality at entry, quality of supervision and quality of ESW assessments (the latter two didn't include Moldova over the past two

the Quality Assurance Group (QAG) for Quality at Entry in 2004-2006 (Energy-2) was rated satisfactory.

27. With the exception of the Youth Inclusion LIC which failed to receive parliamentary ratification and therefore was not rated, all three projects evaluated by IEG during the period of FY2005-2006 (see Table 6) were considered satisfactory, likely to be sustainable, and considered to have achieved substantial institutional development impact.¹⁷

TABLE 6. IEG RATINGS OF CLOSED PROJECTS, FY05-06

	Outcome	Sustainability	ID Impact
GEN EDUC FY05	Satisfactory	Likely	Substantial
PSD 2 FY05	Satisfactory	Likely	Substantial
YOUTH INCLUSION LIC FY05	Not Rated	N/A	Not Rated
RURAL INV & SERVS (APL #1) FY06	Satisfactory	Non-Evaluable	Substantial

28. The recent ISRs on projects under implementation suggest that all are on track to meet their development objectives. 2006 Country Program Review noted that the quality of the results frameworks for individual projects overall has been good, with clear, concise, realistic, and monitorable indicators, consistent with projects' development objectives. At the same time it recommended to pay more attention to building synergies between the projects in the same sector through joint M&E systems, as well as ensure that performance frameworks become integrated in the national monitoring system. Additionally, the recent OPCS review of the results frameworks for IDA-supported new projects noted problems with unsatisfactory quality of baseline data for several projects approved in FY06.

29. **Working with other donors.** Limited IDA allocations and growing financial support from other donors and agencies mean that the Bank is no longer the largest provider of external financial support to Moldova.¹⁸ This underscores the importance of deepening and extending IDA's partnerships with other donors in support of tangible outcomes. IDA has been active in helping to improve donor coordination during the past two years. Harmonization between the EGPRSP and the EMAP and the willingness of external partners - including the US, the EU, Sweden and the Netherlands - to align their assistance with the EGPRSP, has facilitated coordination on the ground. The Bank has worked with other donors both in analytical work and in individual lending operations (see Box 1).

years), and the Independent Evaluation Group (IEG) reviews of completed projects. Additionally, an internal review of monitoring and evaluation as part of the 2006 country program, and a review of the ISRs for IDA operations (ECA Quality Group) in 2006 have been used.

¹⁷ IEG evaluates development interventions by assessing how their results compare against stated objectives. It evaluates outcomes by considering the relevance of the project objectives in relation to country needs and institutional priorities and the extent to which the developmental objectives have been achieved.

¹⁸ The IMF approved a PRGF of \$118 million in May 2006. The EC, under the new ENP financial instrument, is expected to provide around Euro 200 million in grant financing over the next four years. The US Millennium Challenge Corporation granted compact status to Moldova in November 2006, holding out the prospects for substantial future grant financing.

Box 1. Examples of IDA's Partnerships with Other Donors in Moldova

The recently approved PRSC became the centerpiece for IDA partnerships in Moldova. Leadership of the analytic underpinnings was shared, with the EC leading the fiduciary review (with Bank input), and the Bank leading the Public Finance Review (with input from several donors). There was close collaboration with the IMF in the context of the JSAN and the PRGF. The EC, the United Kingdom (DFID), Sweden (SIDA), and the Netherlands collaborated in the preparation of a single policy framework that was included in the PRSC. This coordination will be extended through the future phases of the program.

In the roads sector, a planned FY07 IDA credit of US\$16 million will underpin a much broader programmatic approach that will seek to put in place a program and financial structures for all resources (government and donors) for the sector for the coming years. A focus on sector-wide results and effective donor partnerships will be at the center of the operation.

30. The harmonization process was carried forward through a Development Partnership Framework between the government, IDA, the Netherlands, the United Kingdom (DFID), Sweden (SIDA), the UN, the IMF, and the EU, signed in Chisinau on May 29, 2006. This Partnership Framework commits the parties to joint reviews, harmonization of indicators, and prior actions and synchronization with government budget cycles with a view to reducing transaction costs of assistance to the government. It also contains performance indicators for both government and external partners to assess progress towards measures for increased aid effectiveness.

IV. IDA'S CONTRIBUTION TO COUNTRY RESULTS

31. This section describes out briefly the contribution that IDA support has made to the attainment of the country-level development outcomes. It draws heavily on the CAS Progress Report.

32. **Overall, significant progress has been made since FY04.** This progress is reflected in fulfilled CAS high-case triggers (see Box 2). Progress was made in most areas, especially in governance (public administration and civil service reform, public procurement, lower costs of doing business, and trade facilitation) as well as in improved macroeconomic management and lower external debt. Country developments have been also successfully captured by the annual CPIA exercise and recognized in the increased CPIA ratings and PBA IDA allocations.

33. **The IDA program has shown flexibility in adjusting to evolving circumstances.** Energy price increases brought to light weaknesses and opportunities in the economy, which analytical work helped to better understand and respond to. The 2006 Poverty Update showed that the recent stagnation in poverty reduction is related to the low rate of economic growth in agriculture and to poorly targeted social assistance. This led to a rethinking of the priority areas of engagement to reduce poverty, with emphasis on reviving agriculture, better targeting social assistance, and improved access to health and education. There is greater awareness of the limitations deteriorating infrastructure places on competitiveness, reflected in the proposal to add a roads project to the lending pipeline.

34. **At the same time, the results framework lacked selectivity.** It therefore did not always allow the concentration of assistance required to reach desired results. Progress was superior in areas where a project or intense dialogue provided support (e.g., trade and transport, health, education). In telecommunications, privatization transparency, youth development, demand for legal services and information, and local development, more limited progress was made on CAS outcomes.

35. **The results framework developed under the PRSC holds much promise for success.** It fills a gap in the originally designed IDA program, aligning support for sectoral policy reforms with individual interventions and thus more effectively supporting results. Preparation of the PRSC provided an opportunity to take stock of the progress made, and articulate a program to address structural reforms where progress has been slow, while adapting to emerging challenges and supporting the government in areas where there is now consensus on actions needed. The PRSC program would therefore fill a vacuum in the dialogue between the Bank and the government on policy issues. Additionally, it is necessary to secure broader impact from project work by scaling up their results through policy actions and the composition of the budget. In this regard, work on integrating sector strategies with budgetary allocations in the context of the MTEF becomes a priority.

36. **Achieving sector-level impact requires more than satisfactory project performance alone.** Progress made in individual projects has not always meant progress towards long-term development goals. Project implementation was good in agriculture and the social sectors, but did not always deliver desired country-level outcomes. The supply response of the real sectors is low (especially in agriculture), poverty reduction has stalled, and access to and the quality of social services remain a challenge. IDA needs to improve its understanding of the linkages between CAS interventions and long-term development objectives. This in turn will improve the design of the next CAS, which will be results-based.

37. A fuller description of results achieved, and the results matrix from the CAS Progress Report are provided in Annex I.

Box 2. Moldova: Key Achievements During the CAS Period

Broad Development results

- ? Strong economic growth (average of 7 percent per annum), improved fiscal management (balanced budgets)
- ? National poverty rate down from 73 percent in 1999 to 28.5 percent in 2005
- ? External debt indicators are outside the danger zone as a result of faster economic growth, prudent fiscal management, and a recent rescheduling agreed with the Paris Club. Ratio of total external debt to GDP fell from 106 percent of GDP in 2001 to around 55 percent in 2005.
- ? Government medium term strategy articulated in EGPRSP and EMAP. Frank and credible assessment of first year prepared. Increased donor support and improved donor coordination in support of the national program.

CAS Supported Results

- ? Substantial improvements in procurement practices have reduced the percentage of sole-source contracting and increased the value of contracts done through competitive bidding. New procurement legislation is in place.
- ? Sector strategies for health, education, social assistance and agriculture have been prepared and will serve to improve the design of the MTEF.
- ? The key indicators of the cost of doing business in Moldova have improved since 2002. In the 2007 Doing Business Survey, Moldova ranks higher than in Ukraine, Belarus, Croatia and Albania, although, due to faster progress in other countries, Moldova's overall global ranking dropped from 88 to 103. The time taken to transit goods through customs has been substantially reduced.
- ? Credit and technical assistance to private farmers, with the support of the Rural Investment and Services Project, has exceeded the targets in the CAS. 75 percent of rural property in private hands has been fully registered with the support of the First Cadastre Project.
- ? The health insurance system is under implementation. The budget allocates over 35 percent of health expenditure to primary health care with basic packages for the vulnerable covered by public services. Infant and maternal mortality rates are decreasing.
- ? Significant improvements in CPIA ratings and portfolio performance, leading in turn to increased IDA allocations.

Source: *Moldova: Country Assistance Strategy Progress Report*.

V. PLANNED ACTIONS TO IMPROVE RESULTS OF IDA

38. The future effectiveness of IDA engagement in supporting Moldova's development agenda would benefit from increased focus on managing for results that allows tracking progress, taking corrective actions and undertaking a fruitful dialogue with the government and other stakeholders. To this end, the following actions are planned in FY07.

- (i) Produce an annual results report to identify actions by Government, the Bank, and partners to deepen the initial steps taken in building a coherent development framework.
- (ii) Monitor annual outcomes/results jointly with government and other donors framed within the EGPRSP and integrated with an annual consultative group event to ensure linkages across the monitoring instruments (e.g., MDGs, the EMAP Progress Report due in late 2006, and the IDA PBA system). The AER and revised EGPRSP policy action matrix would provide an integrative framework based on measurable targets to prioritize the reform efforts.

(iii) Continue implementation of the PRSC program as a platform for strong collaboration with donors in support of structural reforms. Align future PRSCs with the budget cycle to improve the predictability of funding, and to promote donor coordination. At the program level, the PRSC will help integrate the policy dialogue with the content of investments, technical assistance and analytical advice.

(iv) Continue to integrate a programmatic approach in all future investment operations financed by IDA, leveraging resources from the other donors in order to provide financial support for implementation of the government sector strategies financed from the budget as is being planned for the Roads Rehabilitation and Health/Social Assistance projects. Results and partnerships with other donors will be explicitly reviewed by country management in concept review and appraisal decision meetings.

(v) Internally, country and sector management continue to provide leadership and support in strengthening the results dimensions of IDA operations, including the quality of the baseline data and its use to improve the design of the results framework of the next CAS.

(vi) Bank teams maintain due diligence in tracking progress and country capacity to monitor the key IDA sector outcomes in four sectors - health, education, transport, and water (under-five mortality rate, primary education completion rate, percentage of population with sustained access to water source, and rural population with access to an all-season road).

(vii) Align management and staff effort with existing incentives. With CPIA ratings and portfolio performance now being the principal determinants of the PBA-based IDA allocations, they will form a significant portion of the results agenda on which the Bank will work with the government in the coming years. An early-warning system to identify projects that may move into at-risk or problem status has been introduced. The annual CPIA rating process is being used to identify areas where improvements can be generated in future years.

(viii) The annual EXT communications strategy for Moldova will be expanded to have an overt link to results of IDA supported operations.

**MOLDOVA - RESULTS AND THE WORLD BANK
MONITORING CAS RESULTS**

1. This Annex takes stock of the results achieved to date during implementation of the CAS for Moldova for the period FY05 through FY08. It focuses on (a) progress made in meeting the CAS high-case triggers and intermediate indicators; (b) progress made towards achieving the stated final CAS outcomes; and (c) the response of the Bank to emerging issues or insights gained from new analytical work. It has benefited from (a) the recently completed EGPRSP AER and the JSAN; (b) analysis and background documentation prepared for the Country Portfolio Review held in Chisinau in June 2006; (c) the strengthening of the PBA methodology for IDA allocations since the CAS was prepared; (d) the documentation prepared for the proposed PRSC program; and (e) AAA work concluded and in progress as well as implementation completion reports on projects recently completed. This Annex also sets the basis for future monitoring of progress towards results. Following this introductory section, a deeper analysis is provided on results in each of the three CAS pillars. Annex B-9 highlights the IDA and other interventions in each area. Finally, although IDA allocations continue to be driven by the PBA, Table 1 summarizes progress made on the CAS high-case triggers.

2. **Moldova's performance on the CAS high-case triggers and on the criteria that drive IDA performance-based allocations demonstrate significant progress under this CAS.** The high-case triggers proved to be an effective instrument to signal priorities and achieve key results. Strong progress was made in most areas, especially in governance (public administration and civil service reform, public procurement, lower costs of doing business, and trade facilitation) as well as in improved macro-economic management and lower external debt. Aggregate CPIA ratings increased from 3.2 in 2003 to 3.5 in 2005, with higher ratings recorded in 7 out of 16 criteria, and no downgrades. Together with improved portfolio performance (currently no problem project or project at risk), this has increased IDA allocations. The JSAN on the EGPRSP AER provided a positive assessment of progress made, while noting the areas where further work is needed.

3. **Progress in reaching the CAS intermediate indicators has been satisfactory overall, if somewhat uneven.** Progress was superior in areas where a project or intense dialogue provided support (e.g., trade and transport, health, education). In agriculture progress on reforms was weaker. Bank dialogue and project interventions help maintain the Land Code, but interventions in the cereal and oilseed markets continued and subsidies increased. Additionally, the results framework was broad, it did not always include the assistance required to reach desired results. In telecommunications, privatization transparency, youth related outcomes, demand for legal services and information, and local development, more limited progress was made on CAS outcomes. Delays in achieving results signal the need to develop better estimates of the time and resources needed to achieve them.

4. **Progress made in individual projects or in meeting CAS intermediate indicators has not always meant progress towards long-term development goals.** Project implementation was good in agriculture and the social sectors, but did not always deliver desired country-level outcomes. The supply response of the real sectors is low (especially in agriculture), poverty reduction has stalled, and access to and the quality of social services remain a challenge. IDA and other development partners need to improve their understanding of the linkages between CAS interventions and long-term development objectives. This in turn will improve the design of the next CAS, which will be results-based.

5. **The proposed PRSC fills a gap in IDA interventions that can more effectively support results.** Preparation of the PRSC provided an opportunity to take stock of the progress made, and articulate a program to address structural reforms where progress has been slow, while adapting to emerging challenges and supporting the government in areas where there is now consensus on actions needed. The PRSC program would therefore fill a vacuum in the dialogue between the Bank and the government on policy issues. Additionally, it is necessary to secure broader impact from project work by scaling up their results through policy actions and the composition of the budget. In this regard, work on integrating sector strategies with budgetary allocations in the context of the MTEF becomes a priority.

6. **CAS implementation has shown flexibility in adjusting to evolving circumstances.** Energy price increases brought to light weakness and opportunities in the economy, which Bank analytical work has helped to better understand and respond to. There is now a renewed emphasis on agriculture and increasing the supply response of the economy. Poverty reduction has come into sharper focus. There is greater awareness of the limitations of deteriorating infrastructure on competitiveness, reflected in the proposal to add a roads project to the lending pipeline.

7. **Positive results come when ownership and commitment of the authorities is high, the Bank responds promptly, and interventions are supported by solid analytical work.** High government commitment and rapid Bank and donor responses have combined to help reduce the regulatory burden on business, safeguard the quality of the macroeconomic environment, reduce the burden of debt, and move ahead on public administration and civil service reform. Progress has been slower when consensus could not be found between the proposed strategy of the government and what donors could support. This calls for renewed efforts to develop common strategies in areas like agriculture, energy, roads, and the social sectors.

8. **Donor coordination is stronger now and has contributed to positive outcomes.** Donor coordination improved during the CAS period. The Bank worked with other donors both in the production of analytical work and in individual investment operations. Cooperation was particularly notable in the preparation of the proposed PRSC and the Public Finance Review. Coordination in AIDS and the preparation of social assistance pilots can also be noted. The consistency of the economic and social development priorities in both the EGPRSP and the EMAP, and the willingness of other

donors to work under these frameworks, has facilitated coordination on the ground. The quality of harmonization and coordination is expected to improve following the signing of the Development Partnership Framework in May 2006.

9. **Bank analytical work has been critical to program achievements.** The AAA work contributed to a better understanding of the causal linkages between the EGPRSP objectives supported by the CAS and the required policy actions and institutional reforms. For instance, the Poverty Update (2006) showed that the recent stagnation in poverty reduction is related to the low rate of economic growth in agriculture and to poorly targeted social assistance. These findings led to a rethinking of the priority areas of engagement to reduce poverty, with emphasis on reviving agriculture, better targeting social assistance, and improved access to health and education. In turn, priority actions in agriculture have gained from the insights derived from the series of Agriculture Notes, which in turn is built on the CEM. Similarly, pilots underway to evaluate options about how to better target social assistance to the poor provide insights on how to increase the effectiveness of social assistance.

10. **Monitoring results in the future.** The quality of the CAS implementation would benefit from a system of continuous monitoring of results that allows tracking progress, taking corrective actions and undertaking a fruitful dialogue with the government and other stakeholders. For the remainder of the current CAS period, and in preparing for the next CAS, it is intended to monitor annual outcomes/results jointly with government and, as far as possible with other donors. In doing so, linkages to the EGPRSP AER, EMAP progress reports, and the IDA PBA system would be fully exploited. Results would be made public to enhance commitment and accountability. The revised EGPRSP policy action matrix would provide an integrative framework based on measurable targets to prioritize the reform efforts. Within the Bank program, the PRSC will help integrating the policy dialogue with the content of technical assistance and investment efforts. Lastly proper attention will be given to planning and gathering baseline data to improve the design of the results framework of the next CAS.

Table 1. Moldova: Status of Implementation of CAS High-case Triggers

CAS High Case Benchmark	Implementation
1. Meeting the benchmarks spelled out in the EGPRSP's annual implementation plan.	<i>Partially Accomplished</i> Completed first annual EGPRSP Progress Report in April 2006 which provided a candid assessment of the accomplishments and shortcomings in implementing the EGPRSP action plan.
2. Maintaining a stable macroeconomic framework and fiscal discipline.	<i>Fully Accomplished</i> New IMF PRGF program (May 5, 2006); Primary Fiscal Surplus of 2.7 and 3.0 percent of GDP achieved in 2004 and 2005; Paris Club debt restructuring agreement achieved (May 12, 2006).
3. Public Sector reform and Governance (a) Civil Service Reform (b) Public Financial Management (c) Public Procurement	<i>Substantially Accomplished</i> (a) Superseding the CAS trigger, the Government has embarked on a more ambitious Public Administration Reform effort - incorporating the civil service reform agenda - adopting a draft strategy and implementation plan. A Bank administered multi-donor Trust Fund is providing technical assistance to this reform effort. (b) Cash availability statements are issued by the Treasury on a monthly basis. (c) CAS triggers on single source procurement and open tendering have been fully satisfied. A satisfactory draft public procurement law has been prepared.
4. Improving the business environment (a) Reduce licensing and inspection costs and number of inspections; (b) Reduce import clearance time at inland terminal of Chisinau.	<i>Fully Accomplished</i> (a) CAS triggers on licensing and inspection costs fully satisfied as is the trigger on the number of inspections; (b) CAS trigger on import clearance time at the inland terminal of Chisinau has been fully satisfied;
5. Improving Social Protection: Pension reform	<i>Substantially Accomplished</i> (a) No new types of pension privileges have been introduced; (b) Database to record collection of pension contributions nearing completion. Approval of amendments to pension law will enable pension payments according to actual individual contributions.
6. Agriculture	<i>Partially Accomplished</i> Current land code maintained; requirement to export via the Universal Commodities Exchange abrogated; no direct administration of crop production; However, wasteful agriculture subsidies have increased.

CAS Pillar I: Promoting Competitive Market Environment, Stability and Pro-poor Growth:

11. A more stable macroeconomic environment, a lower debt burden, and a better business environment are all positive achievements during this CAS period to which Bank assistance contributed. However, growth has been driven mostly by consumption deriving from high remittances and wage increases. The main concern, as pointed out by the AER of the EGPRSP, is the limited supply response of the economy. The AER noted that the expected restructuring of the economy has not taken place. In addition, wages measured in foreign currency have been growing faster than labor productivity, increasing unit labor costs. A key question is whether progress made in stabilizing the macroeconomic situation and reducing barriers to business and trade are sufficient to trigger a supply response or whether it is necessary to accelerate the pace of reform. It is planned to track a basic set of competitiveness indicators linked to the EGPRSP and to continue to improve the understanding of the casual links between policy actions and competitiveness outcomes.

12. **The quality of the macroeconomic environment has improved.** Remarkable progress was made in improving the quality of macro-economic environment. The fiscal primary surplus exceeded CAS targets. The priority going forward is to bring inflation to single digits. The IMF PRGF and the Bank PRSC will support the government in this effort.

13. **Moldova made substantial progress in reducing the burden of external debt.** The CAS noted that the high level of external debt posed a high risk for macro-economic stability. Arrears with bilateral lenders caused delays to the approval of the EGPRSP, and thus the finalization of the CAS. Rapid economic growth—on average 7 percent over the last 6 years—and a prudent fiscal policy have reduced the relative size of the external debt from 106 percent of GDP in 2001 to 55 percent in 2005. Today, Moldova's debt indicators are overall below the level considered critical for IDA countries. Agreement was reached on rescheduling external debt arrears at a recent Paris Club meeting, which is expected to reduce debt service during the period of the IMF-supported program (2006-2008) from US\$149.9 million to US\$60.8 million. The Bank supported the government's efforts, and provided advice on debt management.

14. **The level of subsidies has increased, contrary to what was expected under the CAS.** The Bank's CEM advised the authorities to focus on improving the quality of taxation and customs rather than on increasing the level of revenues. However, rising imports together with solid economic growth led to buoyant tax revenues, which allowed the government to expand expenditures while maintaining a tight fiscal position. The government allocated more funds to the social sectors, pension privileges, and to agriculture sector subsidies. Preliminary results from the Public Finance Review suggest that the government needs to create fiscal space to accommodate greater levels of public investment. The proposed PRSC would support this effort, both in pensions and agriculture.

15. **Progress made in pension reform has been mixed** The CAS targeted completion of the pension reform agenda approved in 1998, and provided support through the Social Protection Project.¹ The pension triggers for the high-case were partially met. To date, about 75 percent of the individual pension records have been entered into the contributors database.² While no new privileged categories of pensioners have been introduced, expenditures for the benefit of privileged pensioners continue to increase. The government adopted in 2004 a strategy for reforming pensions in the agricultural sector in line with a CAS intermediate indicator. However, implementation has been slow.

16. Work done in preparing the proposed PRSC has strengthened the dialogue on pensions, supporting: (i) the establishment of the individual accounts for 100 percent of all pension contributors; (ii) implementation of the pension reform strategy to unify the pension system for all types of pensioners (non-agricultural, agricultural and privileged); and (iii) making progress in linking benefits to contributions. The Public Finance Review (PER) provides background analysis to evaluate the financial sustainability of the pension system.

17. **The business environment has improved, and barriers to trade have been reduced** Significant progress was made to improve the business environment and facilitate trade. All CAS intermediate benchmarks, including high-case triggers, on the cost of doing business (reduction in time and costs to obtain licenses, reduced inspection costs, and fewer inspections conducted) have been surpassed, with one exception. In 2005, it took US\$303 to obtain a license, compared to the US\$550 under the CAS high-case trigger and intermediate indicator. Average inspection costs amounted to US\$99, and the average annual number of inspections was 11.4 against US\$1,000 and 12 inspections respectively in the CAS high-case triggers. The time for clearing customs continues to decline, although it has yet to meet the CAS target.

18. Early government commitment and prompt support from the Bank and other donors contributed to these results. The government approved the “Concept of Regulatory Reform” in 2004, and, soon thereafter, the “Guillotine” Law and the National Regulatory Reform Strategy, which seek to improve the quality of law-making by playing close attention to regulatory impact. The Bank supported these efforts with analytical work, including the Investment Climate Assessment (2004), the CEM (2005), and the Trade Study (2004).

19. Implementation of the Trade and Transport Facilitation in South East Europe (TTFSE) project contributed to reducing non-tariff costs, simplifying clearance procedures, addressing inefficiencies at border crossings and customs at large, and supporting the harmonization of customs’ regulations with EU standards. Recent

¹ Co-financed with DFD.

² The high-case target was implementation of the individual account system. On the other hand, the CAS intermediate indicator was 50 percent. The Social Protection Project foresaw that the system would be operational from January 2005. This is now estimated to happen in early 2007.

progress has also been made in establishing the Automated System for Customs Data (ASYCUDA) risk-based clearance system. There has been a reduction in customs clearance time. Business and other surveys confirm, however, that there remains much work to do.

20. The Bank plans to continue to assist the government's priorities through the proposed PRSC, investment lending and analytical work (including surveys). The Competitiveness Enhancement project, approved at the end of 2005, supports further streamlining of the administrative barriers to reduce compliance costs and modernization of the quality systems and to increase the capacity to produce goods that meet standards in export markets like the EU. It also supports the introduction of regulatory impact assessments, along the lines of EU practices, to maintain the gains made in deregulation over the long-term. The PRSC will monitor indicators on business environment and trade facilitation.

21. **Progress in modernizing the institutions in the transportation sector has been slow, although awareness of the constraints to competitiveness has increased.** The CAS noted that the road network, while extensive, was deteriorating. The EGPRPS AER highlights the impact poor roads have on transport costs and competitiveness. The CEM and the on-going PFR confirm this. The low level of public investment—around 2 percent of GDP—and limited possibilities to engage the private sector through public/private partnerships, as noted by the JSAN on the AER, are significant constraints.

22. The CAS provided only limited support for roads under the trade and transport project, and progress towards the CAS intermediate indicators is weak. The proposed PRSC program will support the EGPRSP objective of adopting and implementing a strategy for the road sector, which would include the reform of road financing and emphasize rehabilitation. A planned road network recovery project would assist with scaling up the resources needed to overhaul transportation infrastructure and create institutions to that facilitate road maintenance through tolls and users' participation. This assistance should help move faster towards the CAS outcomes.

23. **Hikes in energy prices have brought renewed attention to incomplete energy sector reforms.** In the past, the Bank was an active supporter of energy sector reforms. These started in the 1990s and successfully established an independent regulator, unbundled electricity generation, transmission and distribution, introduced competitive trading rules and cost recovery through tariff adjustment, put a leash on subsidies, and partially addressing the historical debt burden of the electricity sector. World Bank Group support came through investment lending, policy dialogue in the context of adjustment operations, technical assistance, guarantees (MIGA), and capital investment (IFC). The World Bank Group has been the largest provider of external assistance to the sector.³

³ Other donors are EBRD (rehabilitation of the Chisinau district heating network), USAID, the Netherlands, and Swedish International Development Agency (SIDA) (technical assistance supporting the IDA financed Energy I and II projects).

24. The CAS gave limited attention to energy issues, focusing mostly on improvements in energy efficiency in pilot communities and public buildings. These CAS intermediate targets have been met. The Energy II project has led to significant savings through new efficient technologies and has increased the availability of heating throughout the year in the pilot areas. It also addresses physical investment needs in transmission and provides technical assistance to improve the debt situation.

25. The recent increases in the price of energy underscore Moldova's vulnerability as it imports most of its energy needs. The Bank moved promptly to assist the government with an analysis of the macroeconomic and distributional impact of higher energy prices. The analysis showed that Moldova's economy is highly energy inefficient (with energy use coefficients much higher than those of countries with similar incomes and more industrialized), and that Moldova is not in a position to profit from its strategic location as a potential transit for energy between East and West.

26. The proposed PRSC will support improvements in energy efficiency through encouraging tariffs that reflect economic costs, maintaining financial discipline in the gas and electricity sectors, and bringing discipline to the heat sector. The proposed PRSC also encourages the government to harmonize with European norms to develop Moldova's capacity to serve as an energy transportation corridor between the Commonwealth of Independent States (CIS) and the EU energy markets, opening opportunities for investment. It likewise addresses the social impact of the price increases, through a poverty and social impact assessment and through better targeting of the existing energy price compensation subsidy.

27. **Agriculture and Rural Development.** When the CAS was prepared, the Bank had concerns on aspects of the government's agriculture policy, specifically the proposed emphasis on large farms and the mandatory organization of small farms into cooperatives. The CAS set as a high-case trigger compliance with the Memorandum of Understanding (MOU) on agriculture policies signed between the Government and the Bank in 2001. Overall compliance with the MOU has been partially satisfactory. The feared reversals of progress on land reform through revision or revocation of the Land Code did not materialize. However, the government continued to intervene in cereal and oilseed markets. Preferential subsidies to large farms have put small farmers at a disadvantage. The subsidies provided by the government have gone mostly to finance recurrent production cost. The incentives for large farms to restructure have not increased stalling the development of the sector.

28. Investment operations in agriculture have performed satisfactorily, in line with their development objectives and the CAS intermediate indicators. The First Cadastre Project supported the registration of 75 percent of rural properties, thus strengthening security of tenure and ownership rights, providing farmers with collateral with which to access financing. However, as pointed in the Agriculture Notes prepared by the Bank, a large percentage of the land remains under state property and under large-scale and less efficient economic exploitation.

29. The first Rural Investment and Services Project (RISP I), working with both formal banking sector and microfinance institutions, contributed to increased access to finance and outreach services in rural areas. The portfolio of the banking sector increased by 144 percent in agriculture and 120 percent in agro-industry between 2002 and 2004, in line with expected CAS outcomes. Around 300,000 farmers have been reached by 540,000 extension activities through a network of 35 private service providers and over 400 local consultants/advisers. These numbers exceed the CAS intermediate indicators. RISP II (approved in FY06) will continue to provide advisory services, but will concentrate on institution-building, seeking to mainstream activities into the budget programs of the government and building the capacity of the Ministry of Agriculture to manage and monitor them.

30. Although the legal framework supporting land consolidation is already in place, as called for the CAS intermediate indicators, the process of land consolidation on a voluntary basis has proceeded at a pace slower than expected by the government. RISP II will finance a series of small pilots to determine whether the current law requires changes and the role of the government in encouraging these transactions. The Bank is also working with the government towards the design of a strategy for risk/hazard mitigation through Economic and Sector Work (ESW).

31. Despite these successful interventions, the performance of agriculture underperformed overall economic growth. This contributed, as the Poverty Update (2006) points out, to increasing poverty in the rural areas since 2003. Bank analytical work carried out under the Agricultural Sector Notes identified factors that lower the profitability of the agriculture sector: low producer prices at the farm gate stalled farm restructuring, low productivity, underdeveloped and excessively regulated markets, and lack of a dynamic agro-industry. Many of these issues are not addressed through the investment operations.

32. The proposed PRSC plans to help the government address the constraints that lower the profitability of agriculture by emphasizing deregulation of markets (exports, seeds, etc.) and making public expenditure in agriculture more effective and less distorted in favor of large, corporate farms. Should the farm gate prices fail to increase, the PRSC calls for further efforts down the line. It is also planned that an additional investment operation will provide support to farms in increasing their competitiveness and access to export markets, or reducing their vulnerability to natural hazards,

33. **It is too early to evaluate the full impact of Bank assistance in the development of the financial sector.** The Bank and the IMF updated the Financial Sector Assessment Program (FSAP) and produced an Action Plan. Compliance with the FSAP Update can only be assessed by the end of the CAS. The Bank provided, or will provide, assistance to the development of the financial sector through RISP and the competitiveness project. As noted already, the RISP targets on increasing credit to the rural areas have been met. The Competitiveness Enhancement Project (CEP) addresses the main impediments to access to finance on the part of businesses – poor collateral and

inefficient credit information system - by establishing a system of credit history tracking and building capacity for managing credit guarantee schemes.

34. The limited assistance provided by the Bank is leveraged by three small activities financed by the FIRST (Financial Sector Reform and Strengthening) Initiative in insurance sector, corporate governance, and accounting and auditing reform. Moldova is aligning its accounting and auditing system with international standards. The EGPRSP AER points out that while the financial sector is sound, it plays only a very limited role in financing investment. It attributes high rates of intermediation to lack of competition. During the rest of the CAS, the Bank, working with the IMF, will increase its engagement in the financial sector.

35. **Targeted privatization outcomes are not supported by the IDA-financed program** At the time the CAS was prepared, the government took a negative attitude towards to further privatization, preferring to focus on the transparency of previous operations. As a consequence the Structural Adjustment Credit 3 (SAC-3) was cancelled. Today, however the IMF's PRGF includes specific measures on privatization, including in the banking sector.

36. **Targeted telecommunications outcomes are not supported by the IDA-financed program.** The CAS called for the development of the legal and regulatory framework for e-commerce. The EGPRSP reports some progress with the help of the United Nations Development Programme (UNDP). The PRSC does not propose to monitor progress in telecommunications, even as the CAS calls for progress in internet penetration and e-commerce. The Bank will raise with other donors their possible support in these areas.

CAS Pillar II: Minimize Social and Environmental Risks, Build Human Capital and Promote Social Inclusion

37. The Bank has had a long-term involvement in the social sectors. The CAS sought to consolidate past gains in health and education, and support new initiatives such as improvements in the delivery of potable water. No social outcomes were included in the high-case triggers.⁴ Progress towards CAS intermediate indicators was satisfactory overall, but the likelihood of reaching the proposed CAS outcomes is uncertain. Recent analytical work has pointed to severe inefficiencies in the delivery of social services, despite the fact that they now absorb two thirds of the public budget. No major improvements were made in the social dimensions of poverty, with increased disparities in access to education and public health services. Limited progress was made in targeting social assistance to the poor. The EGPRSP AER shares this assessment.

38. Renewed effort will be made during the second half of the CAS by (a) seeking greater consensus among stakeholders and donors around the EGPRSP objectives and the sector strategies; (b) advancing the restructuring of sector programs and budgetary allocations; and (c) fine-tuning monitoring mechanisms to track results. The proposed

⁴ Pensions were included, but the perspective was fiscal discipline rather than social welfare.

PRSC series plans to monitor progress made on efficiency in the use of resources. Planned investment operations will be aligned with EGPRSP objectives.

39. **Progress towards better targeting of social assistance has been limited** The CAS focused attention on increasing the effectiveness of social assistance in reaching the poor. Progress was made in reaching the CAS intermediate indicators by developing a social assistance strategy and developing pilots for evaluating alternative ways of targeting social assistance. However, no progress was made towards the CAS outcome of targeting social assistance to the poor. A recent study prepared by UK Department for International Development (DFID) and the Bank showed that only 23 percent of social assistance payments went to the poorest 40 percent of the population in 2004, while more than half went to the richest 40 percent. The recent Poverty Update concludes that weak targeting of social assistance has contributed to the slowdown in poverty reduction.

40. The proposed PRSC plans to monitor progress in increasing the effectiveness of social assistance expenditures in reaching the poor. The social assistance component of a planned new investment operation will provide technical assistance, based on pilots underway, to better target social assistance. The current agenda places emphasis on the development of a common database of beneficiaries and examines the adequacy of targeting based on income, given that a sizeable percentage of the population derives non-cash incomes. It is unclear whether the CAS objective of targeting 85 percent of social assistance to the poor will be met.

41. **The Bank's attention has broadened beyond rural education** The CAS prioritized support to rural education as part of a strategy to provide assistance to those areas where service delivery was the weakest. The Quality Education in Rural Areas project (FY06) helps the rural education reform strategy foreseen in the CAS. Given the recent deterioration in the education indicators for rural areas, however, it is unclear whether CAS targets in coverage and quality of education can be achieved.

42. Implementation, analytical work undertaken to support the preparation of the education sector strategy and background work to the PFR revealed that Moldova lags behind its neighbors in educational outcomes. The current system exhibits significant inequalities, partly because of the low coverage of pre-primary education services. In addition, the analytical basis for moving ahead with sector-wide reform is still weak, in particular, as regards linking plans under the EGPRSP and the Education-for-All initiative within the medium term expenditure framework.

43. Work on a broader agenda has commenced with Bank assistance. In October 2005, the government consolidated various plans into a single strategy document, which supported a successful application for funding under the Education-for-All Fast Track Initiative, providing US\$13 million for early childhood development over the next three years. Various sub-sector strategies have been developed building on progress already made with reform of education, much of it associated with the completed Bank-financed General Education Project.

44. Further progress can only be achieved through a more efficient utilization of the current budget allocations to education, which amounts to 6.8 percent of GDP. This requires developing a consensus around the education sector strategy, implementing it within the MTEF framework, and bringing all donors on board. The proposed PRSC series will monitor progress in reducing inefficiencies.

45. **Slow progress in consolidating health reform.** Moldova reformed its health sector rapidly in the 1990s. In 2004, it introduced a health insurance system, which has increased significantly the resources available for health, now amounting to 4.7 percent of GDP. The completed Health Investment Fund supported the introduction of the health insurance, efforts to improve access to health, and to scale down old infrastructure. An AIDS Control project is assisting the government implement its Tuberculosis (TB) and HIV/AIDS program. A group of donors has pooled resources to provide complementary financing—Global Fund for AIDS, Tuberculosis and Malaria (GFATM), the United Nations (UN) agencies, the World Health Organization (WHO), the Soros Foundation/Open Society Institute, the Royal Netherlands Tuberculosis Association (KNCV), SIDA-Sweden, the United States Agency for International Development (USAID), and the Japanese Government.

46. As expected under the CAS more than 35 percent of health expenditure now goes to primary health care and public services provide basic packages for the vulnerable. A Health Sector note sets the basis for hospital restructuring in the future. Sustainable state funding of TB and AIDS control programs is in place. Good progress was made towards reaching the results expected under the CAS. The health indicators tracked under the EGPRSP (maternal and child mortality) have improved, and the fight on AIDS shows signs of success.

47. As pointed out in a recent Health Policy Note and acknowledged by the EGPRSP AER, reforms remain incomplete and much needs to be done to increase coverage of the health insurance, efficiency of health expenditures, and quality of the primary health care. The Bank will continue to assist the government with health reform through the proposed PRSC and a planned project supporting health. The proposed PRSC will target improved use of resources and strengthening of the primary health care system. The planned investment operation should help enhance donor harmonization around the sector strategy and consolidate the reforms around the MTEF in line with the PRSC.

48. **A good start was made in increasing access to potable water, but Moldova will still find it difficult to meet the MDGs in this area.** The CAS initiated Bank support to improve access to potable water and the financial performance of the water delivery companies. The Water Supply and Sanitation Project is financing a series of small-scale pilot projects in selected locations, while simultaneously helping build institutional capacity to implement the national Water Action Plan. Implementation of the project is on track. The increases in access and coverage expected under the CAS and the project have been met. However, less progress has been made in improving the financial performance of the utilities, even if the collection rates have improved in the pilot areas. The government has asked the Bank to help coordinate the work of donors in

the delivery of potable water and thus mobilize additional resources. Achieving the CAS results requires not only successful implementation through the pilot project, but impact at the broader sector level, including the careful monitoring of the quality of water.

49. **Failure to secure parliamentary ratification of the Youth project in 2004 affected the proposed development of the youth agenda.** Most of the targeted CAS results are therefore not likely to be met. The main instrument in place to support youth-related activities is the Youth Voices Group (YVG) dialogue. Several Bank-financed projects--HIV/AIDS, Social Investment Fund (SIF), General Education, JSDF Grant for Transnistria and RISP—also included youth components.

50. **Progress in carrying out the proposed environmental agenda has been satisfactory at the project level.** The Emissions Repurchase Agreement (ERPA) under the Community Development Carbon Fund (CDCF) Energy Conservation project was signed within the framework of the Kyoto Protocol. The pilot utilization of biomass from agro-waste as an energy source was undertaken with the support of the Renewable Energy from Agricultural Wastes (Biomass) Project. The Water Supply and Sanitation project and the GEF Agricultural Pollution Control project address health risks from ground water. The GEF Sustainable Persistent Organic Pollutants (POPs) Stockpiles Management operation supports the safe storage and destruction of persistent organic pollutants, and the development of laws and regulations for POPs management, increased capacity, and awareness. The Prototype Carbon Fund (PCF) Soil Conservation Project aids with afforestation. The Community Forest Development aids with ecological restoration and reforestation. The prospects for achieving desired CAS outcomes are good; indeed, the CAS may yield higher than previously expected results, given the broad range of interventions. The EGPRSP AER does not report on progress in the environment agenda, however. Also, it is not clear if the projects are having an impact at a broader national level helping develop sustainable institutional outcomes.

CAS Pillar III: Combating corruption and improving public sector governance

51. When it assumed office, the current government voiced its intention to tackle corrupt practices, which it claimed had plagued previous administrations. The CAS assigned a high priority to improve governance. The high-case triggers included governance related indicators in procurement, civil service and public administration reform, and deregulation. Most of these indicators have been met fully, and the others partially. Despite progress, much of the governance agenda remains in the implementation stage and there are concerns of the use of political power to influence economic outcomes.

52. **The government has made good progress in initiating an ambitious public administration and civil service reform.** The Government has placed public administration reform among its top priorities and actions to date exceed expected CAS intermediate benchmarks. In 2005, the government embarked on a comprehensive public administration reform aimed at (a) improving the capacity of government to make policy decisions, (b) streamlining the government organizational structure, (c) establishing a

professional civil service, and (d) reaching a better alignment between the budgetary allocations and strategic priorities of the country. As a result, with donor support, the Government prepared the Strategy of Reform of the Central Public Administration and Implementation Plan, which was endorsed by the Cabinet of Ministers on December 28, 2005. Progress on civil service reform includes approval of the strategy paper on competitive recruitment of civil servants and launching the remuneration reform in the civil service.

53. The proposed PRSC program will monitor progress towards the CAS outcomes expected under the high case---competitive recruitment and payment reform. Technical assistance will be provided through a US\$7 million multi-donor trust-fund that the Bank administers.⁵ The resources of the fund will help the government advance the institutional reorganization of the state, the development of strategic thinking and policy-making capacity, enhancing managerial controls and accountability and the ability to manage change, and creating a merit-based professional civil service.

54. **Progress has been made in strengthening the MTEF, but it has yet to fully reflect the priorities set under the EGPRSP.** The Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment Report (CPAR) completed in 2003 and followed by a PEFA and now a PRF have provided the analytical basis for the Bank's assistance to improve public expenditure management. Specifically, the CAS foresaw the institutionalization of the MTEF process as a mechanism to help improve (a) the alignment between the priorities of the EGPRSP and the budgetary allocations; (b) the development of sector programs based on prioritized resource allocations; and (c) the capacity to track and monitor impact. The CAS intermediate indicators have been met. The authorities have (a) taken steps to tighten the link between the MTEF and the budget process; (b) relied on more realistic revenue projections; (c) launched pilot MTEF exercises with the local governments; (d) expanded pilot program budgeting; and (e) undertaken expenditure analysis based on performance indicators for the annual budget execution report. The government is also developing sector strategies (education, health, social assistance and soon agriculture) to ground expenditure allocations on clear strategies and be able to track impact.

55. **The CAS goal to develop a consistency between EGPRSP priorities, MTEF allocations, and budget allocations, is highly ambitious and probably will be fully met only in the long-term.**⁶ To aid the process, the proposed PRSC emphasizes presentation of the MTEF to parliament prior to the consideration of the budget, the inclusion of capital spending in the MTEF, and improved selection of investment projects. The PFM project will further help improve budget preparation and execution, support development

⁵ The trust fund pools resources provided by DFID, SIDA, and the Netherlands, with preparatory activities supported by UNDP. The Grant will be administered by the World Bank and executed by the Public Administration Reform unit in the Government Office.

⁶ As noted by the AER of the EGPRSP, the MTEF does not fully reflect the priorities of the EGPRSP. Also, the efforts at linking sector strategies with budgetary allocations and then outcomes are work in progress.

of a new financial management information system, complete treasury reform, and improve the system of internal control and audit.

56. **There is a need to increase the fiscal space for public investment through greater effectiveness of current budget allocations.** The PFR suggests creating fiscal space for investment through greater efficiency of current budgetary allocations rather than through increasing revenues. There is therefore a need to enhance policy making capacity, strategy formulation, and the effective monitoring of outcomes. While the development of several sector strategies is a welcome first step, much more is needed. To help in this effort, technical assistance or investment operations would target intervention at a broad sector level through restructuring of the budgetary allocations. A priority should therefore be to ensure that the lessons of the pilot interventions are incorporated in the broad sector policy design and that interventions are harmonized with those of other donors around the sector strategies.

57. **Moldova has made good progress in improving public procurement practices.** The CAS included procurement targets as high-case triggers. The CAS implemented the agenda developed under the CPAR (2003) with the support of a capacity building IDF grant, which led to approval of a new modern public procurement law and significant improvements on the ground. Sole-source procurement (a reduction in which was a CAS outcome) was reduced from 51 percent to 45 percent by value of contracts (including utilities), and use of open tendering increased from 28 percent to 40 percent of the value of awarded contracts. The more ambitious CAS outcome is still to be fully achieved. The proposed PRSC will continue to monitor progress in procurement reform, setting performance targets on single source procurement and open tender more ambitious than initially envisaged under the CAS.

58. **Slow progress in assisting reform of the judiciary.** The CAS assigned importance to improving the access of the poor to judicial services. It foresaw an active dialogue on judicial sector reform based on the results of the Judicial Sector Assessment completed before the end of the previous CAS and delivered to the government in June 2005. A small Courts Reform technical assistance IDF grant has just become effective to enhance court performance with a special focus on the commercial jurisdiction. The Legal Empowerment technical assistance (the Japanese Social Development Fund (JSDF) grant) foreseen in the CAS to help improve access to the poor has not yet materialized. There is therefore a relatively low likelihood that the outcomes defined in the CAS (improved provision of legal information and services among the poor in rural and semi-rural areas, and enhanced public discussions on legal welfare) will be achieved. During the second half of the CAS, the Bank will review how more active support to the judiciary can be developed.

59. **Support for local development has been weaker than expected.** The CEM emphasized the role that local government can have in improving governance and service delivery. However, an active agenda to support local development by building on past experience remains to be developed.