



# World Bank - Moldova Partnership Country Program Snapshot September 2011



## RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

### Growth and External Performance

**With real GDP growing at 6.9 percent in 2010 and at 8.4 percent in the first quarter of 2011, Moldova's economy has made a full recovery from the global financial crisis.** Real household consumption increased by 7.1 percent – just short of the level pre-crisis, and gross fixed capital formation increased by 17.2 percent in 2010. During the first quarter 2011 real GDP growth was led by the return of remittances in local currency terms, and the very high export growth rate. Higher prices for agricultural commodities and increased access to EU markets brought higher export values. In addition, the private sector responded to the lifting of export bans and restrictive regulations on wine, wheat, and oil seeds, and new manufactured exports continued to grow. Recent estimates from different experts in Moldova and from the IMF suggest that the overall GDP growth rate may exceed 6 percent in 2011. Growth is projected at around 5 percent in the medium term provided that political stability allows pursuing structural reforms that will unleash new growth engines besides remittances.

Remittances will continue to play an important role in Moldova's economy, but with a big share of the workforce already overseas, and the growth in remittances projected to decline, a second engine of growth based on exports and investment is needed to ensure that Moldova's economy continues to grow at a fast pace. To support private investment and export led growth, the ruling Alliance for European Integration (AEI) has pursued an ambitious program of structural reform, but political uncertainty has complicated its implementation. In the Parliamentary elections in November 2010, the AEI secured a majority sufficient to continue the existing course of reforms, but insufficient to elect the President. The resulting political logjam may lead to another round of early parliamentary elections (possibly in early 2012), unless a President is elected soon.

Key challenges for structural reform include improving the investment climate and removing obstacles for exporters (including in agriculture), channeling remittances into productive investments and developing the financial sector, capitalizing on opportunities in ICT and rebalancing tariffs, ensuring financial sustainability and attracting investment to the energy sector, and creating fiscal space by improving the efficiency and quality of public services including education. In the context of negotiations with the EU over a possible Association Agreement, administrative and judicial reforms to improve public sector governance are also high on the agenda. The authorities are seeking private investment in strategic sectors, including IFC participation for denationalizing the large companies Moldtelecom, Air Moldova and Banca de Economii.

### External Sector

**The current account deficit fell significantly from 17.3 percent of GDP in 2008 at the onset of the global financial crisis, to 10.2 percent in 2010, on the back of a drop in imports.** Imports declined by 32.7 percent (change of amounts in USD) in 2009 thus largely offsetting the decline of remittances and compensation (37.4 percent). Imports grew again in 2010, but so have remittances and compensation. Higher rates of growth rates for exports since the second half of 2009 have also helped lower the current account deficit, despite the recovery in domestic demand. The real growth in exports of 12.8 percent in 2010 was higher than before the crisis and this growth rate accelerated in the first quarter of 2011 to reach 31.5 percent real growth rate – partly on the back of rising world prices for food. Foreign direct investment increased from 2.2 percent of GDP in 2009 to 3.3 percent in 2010; however it is still far from 11.7 percent registered before the crisis. In the face of lagging FDI, the current account deficit is being financed by the

International Monetary Fund (IMF) (30 percent of the CA deficit after remittances in 2010) and other

## Fiscal Sector Performance

**Moldova is implementing - with the support of the IMF- a fiscal consolidation program. The core of the program is efficient tax administration, education sector reform, and better targeted social assistance.** The overall fiscal deficit declined from 6.3 percent of GDP in 2009 to 2.5 percent of GDP in 2010. The IMF program envisages a further reduction of the deficit to 1.9 percent of GDP in 2011, with medium term deficits below one percent of GDP. Challenges have emerged though at mid-2011 with VAT collection lagging the strong economic growth. While the overall government balance improved, the composition of expenditures

## Financial Sector

**The credit crunch subsided in the aftermath of the global financial crisis.** Credits to the economy increased by 15.4 percent (y-o-y) in May 2011, up from 12.7 percent at end 2010 (12.7 percent). Asset quality is also improving as the ratio of non-performing loans (NPLs) to total loans was 10.2 percent in May 2011, down from 17.3 percent in May 2010. In May 2011, the average lending rate for commercial bank loans in local currency was equal to 14.59 percent or very close to the historically low rate registered in December 2010. In 2009, banks kept lending rates high in spite of falling inflation but as perceived risks subsided, and with slower credit demand, average lending rates in local currency gradually decreased by 800 basis points between March 2009 and December 2010. The real cost of borrowing declined from about 2000 basis points in 2009 to about 700 basis points by the end of 2010.

**Four Moldovan banks were subject to raider attacks in 2011,** with such attacks on commercial Banks raising serious concerns around governance

development partners.

deteriorated, with public infrastructure spending reduced as a share of GDP. Current budget expenditure remains higher than before the crisis, and more importantly, the share of public consumption continued to grow both through the crisis and the recovery. Since 2005 public consumption has risen by almost 10 percentage points of GDP. With public capital expenditures falling from 7.1 percent of GDP in 2008 to 4.6 percent in 2010, Moldova needs to create fiscal space for much-needed growth-enhancing infrastructure investments.

and the business climate, while putting at risk the still fragile gains on financial stability. The attacks, perpetrated on the basis of fraudulent legal documents, came to a head in July/August 2011 at which time actual share transfers took place. The perpetrators used loopholes in the legal framework to circumvent the National Commission for Financial Markets (NCFM) and National Bank of Moldova (NBM). The effective use of these loopholes has been facilitated by a lax judicial system. Following various appeals from the European shareholders who had been defrauded, the National Commission for Financial Markets has initiated steps to prevent further transfers of shares and the legislation was tightened to prevent future similar infringements. Moreover, the Supreme Court of Moldova on September 14, 2011 overturned the earlier decision of a local district court thus ruling the transfer of shares from European shareholders to an off-shore company as being illegal.

## Poverty and Social Protection

**2010 was another year of jobless growth notwithstanding impressive economic recovery – a key problem for Moldova since 2000.** The unemployment rate increased from 4 percent in 2008 to 7.4 percent in 2010. Poverty did not increase during the crisis of 2009 as had been expected mainly owing to measures taken by the previous Government. As remittances plummeted and private sector real wages fell in the wake of the global crisis, Government raised pensions, social assistance benefits and public wages. These measures were unsustainable and poorly targeted, but had large distributive effects

and averted the expected increase in poverty. National poverty rates remained flat in 2009 but mask growing rural-urban disparity. Moldova's poverty rate in 2009 was 26.3 percent versus 26.4 percent in 2008. Rural poverty rates rose in 2009, reaching 36.3 percent versus 34.6 percent in 2008, whilst urban poverty rates continued to fall, especially in the municipalities of Chisinau and Balti. A system of targeted social assistance, put in place by the Government with support from the World Bank, will contribute to reducing poverty rates.

## Water Supply

Only slightly more than half of rural communities have piped water systems and only approximately 40 percent of rural communities have sewerage infrastructure, which, in many cases, has ceased to function. Approximately 80 percent of all urban residents are connected to water supply and 63 percent to sewerage. Few existing wastewater treatment facilities meet international standards, and many are abandoned due to operating costs and lack of maintenance. About 10 percent of samples from urban water supplies and 16 percent from rural ones are contaminated with coli forms. The bacteriological quality of water in rural communities is likely still worse. The World Bank is supporting Moldova as it increases connectivity and improves the quality of water. In areas where the World Bank has supported pilot programs, water supply per day is now 18-24 hours. Water losses due to leaks and decaying infrastructure have been reduced, and water consumption per capita has almost doubled. Another important improvement in pilot areas is evident in the quality of the water - 100 percent of microbiological water quality samples passed inspection.



## Education

The main priority for Moldova at this time is to increase efficiency of the education sector while at the same time focusing on improving the quality and relevance of its education to improve its competitiveness in the future. Moldova's education system is characterized by a large disconnect between high education spending (9-10 percent of GDP) and education outcomes. The Government is currently developing, with the support of the World Bank, a comprehensive nationwide reform program that will optimize schools network, and improve efficiency and effectiveness of education spending through the introduction of per student financing. The main goals of these reforms are to create a leaner and better equipped education system, with adequately trained and paid staff, and more, and improved, teaching and learning materials to provide quality education that meet the demands of a modern economy.

The Bank financed *Quality Education in Rural Areas of Moldova Project* has made a significant contribution by jumpstarting education reforms through piloting of school optimization and per student financing. Other achievements include updating the bus fleet to provide transportation to students who have been part of the school optimization process; revisions of the lycee



curricula and development of associated guides, providing teaching/learning materials and equipment through a grants program benefiting students in about 1,400 poor rural schools, teacher training programs for 8,000 teachers in 10 rayons, supporting participation in international assessments, and promoting efficiency in the use of resources, education planning and monitoring.

## Social Protection

Moldova spends generously on social protection. Between 2005 and 2009 social protection (including pensions) received over one third of all cumulative increases in Government expenditure. However social assistance programs are fragmented, poorly targeted and do not perform well in terms of poverty reduction. Moldova's largest Social Assistance spending programs are Nominative Compensations (NC) for gas, electricity, heating and community services (20 percent of overall spending in 2008), followed by state allowances for people with disabilities and war veterans and their families (13 percent), and family and child benefits (9 percent). These programs are not specifically targeted to the poor. Analysis of 2009 household budget survey data reveals that over two-thirds of the poorest 20 percent of the population did not receive any social assistance benefits.

Acknowledging the weak performance of the existing social assistance system, the Government of Moldova initiated in 2009 a reform of the social support system. The Ajutor Social Program was launched as a poverty-targeted cash benefit program that combines income and proxy means-testing to determine eligibility and channel benefits to the poor. Analysis of the 2010 Household Budget Survey data suggests that the new program is a progressive and cost-efficient transfer, and is fairly accurate in channeling benefits to poor. The World Bank is supporting this reform with a US \$37 million project. Priorities for the future include: (i) scaling up the Ajutor Social and consolidating other benefits; and (ii) strengthening and mainstreaming the management of the Ajutor Social program into the Ministry of Labor and Social Protection's management structure.

## Health

Over the last decade Moldova has been able to improve health outcomes to re-gain its pre-transition levels, and has achieved significant further reductions in maternal and child mortality. Starting in 2004, the country began implementation of far-reaching reforms in the health sector, including:

- Creation of an independent mandatory health insurance company (CNAM), which served as an effective tool in reducing previous fragmentation in financing of health services;
- Increases in hospital autonomy;
- Separation of primary and secondary care financing (from 2008), and a move towards capitation payment for primary care and case-based payment system for hospitals;
- Initial steps towards contracting providers on the basis of performance (from 2008), development of public-private partnerships, and setting clear accreditation and quality standards.

Over recent years reforms have progressed slowly, with little improvements in hospitals efficiency and quality, and largely stalled when the economic crisis hit the country in late 2008.

The extent of out-of-pocket payments has been reduced, but is still prevalent. The introduction of health insurance has not led to a significant reduction in the prevalence of out-of-pocket payments. In fact, according to the *Life in Transition Surveys* repeated in 2006 and 2010, Moldova was the third ranking country in terms of the prevalence of these payments in the ECA region, after Azerbaijan and Kyrgyzstan. Unless insured patients perceive that their health

## Environment

Moldova has in the past two decades experienced an increased number of droughts, the most severe occurring in 2007. The impact of recent flooding on agricultural production and social welfare has been substantial. Other environmental concerns are soil degradation, surface water pollution from run-off and agro-chemicals, lack of sustainable waste management (both solid and water), as well as increased ground water pollution due to poor manure management in rural communities. Moldova has had great success in protecting the environment. Eleven biomass boilers were installed in demonstration sites under the



insurance premiums make a difference in terms of accessibility and reduction of out-of-pocket payments, they will not have any incentive to pay their contribution.

A legal framework to further develop public-private partnerships has been finalized, and the government should proceed with its implementation. Further rationalization and regionalization of the public hospital network is needed along with further enhancement of the role and autonomy of primary healthcare facilities. If Moldova is to make further progress in the prevention and control of non-communicable diseases, which are currently the main killers, preventive services need to be massively scaled up, and the primary healthcare system needs to play a key role.

The World Bank supports health care modernization through implementation of the *Health Services and Social Assistance project* [2007-2011] which supports capacity building in policy development, implementation, financing and management and upgrading health services.

*Renewable Energy from Agricultural Waste Project* to act as catalysts for the introduction and promotion of the use of agricultural waste. Soil conservation projects will lead to a reduction of CO<sub>2</sub> emissions of 4.3 million tons over the next 10 years. Further, 100 percent of Persistent Organic Pollutants (chemicals used as pesticides or for industrial purposes) have been managed or destroyed entirely, a total of 1,272 tons of pesticides and 17,300 capacitors of PCBs. Continued focus by Moldova and development partners on emission reductions and carbon sequestration through supporting carbon-financed projects and bio-

carbon investments will be important—in particular for benefiting from the global carbon

market and for soil conservation and expansion of the country's forested area.

## Business Reforms

Moldova needs to deepen regulatory reforms and strengthen the rule of law to encourage private investment. Some progress has been achieved on business environment reform, including overhaul of the business registration system, streamlining legislation governing the regulatory regime, and efficiencies in filing taxes. The Government has taken steps to de-monopolize exports and imports and to simplify licensing procedures. Further actions are required to facilitate business entry and exit, and to improve business regulation and legislation on competition and intellectual property rights. There needs to be fairer enforcement of legislation through the judicial system. Improvements in the rule of law are a key focus of the European integration agenda under which Moldova will receive significant support from the EC and other bilateral partners to reform its judicial system, as well as other law enforcement bodies. These efforts are highly complementary to the Bank's work to help Moldova improve the investment climate. To make it easier to do business, as part of the Competitiveness Enhancement Project the Government completed a review of relevant legislation and proposed amendments to some 80 laws affecting business operations. In addition, business owners will also be able to voice their views through a committee set up to address new policies affecting the business environment. Additional financing under the Competitiveness



Enhancement Project is providing a total of US \$24 million in loans to export-oriented enterprises; whilst a matching grants scheme aims to support Moldovan businesses adopt international quality management systems. In addition, the Rural Investment and Services Project has overseen 194 new businesses created in rural areas from 2006-2007, and 149 loans have been provided to rural beneficiaries in 2006-2007 through the same project. Still, private sector investment and job creation remain constrained by burdensome regulations and high administrative costs of doing business. Moldova should continue improving business climate by removing administrative constraints on business; de-monopolize the domestic market and eliminate anti-competitive practices in commercial transactions.

## The World Bank's Country Partnership Strategy for Moldova (FY9-13)

The World Bank's Country Partnership Strategy (CPS) for Moldova for 2009-2012, prepared in partnership with the Government of Moldova and in consultation with the business community, civil society and donors, was endorsed by the World Bank's Board in January 2009. It focuses on three strategic priorities, aligned with the country's National Development Strategy for 2008-2011: improving economic competitiveness to support sustainable economic growth, minimizing social and environmental risks, building human capital, promoting social inclusion, and improving public sector governance.

Within this broad agenda, the World Bank aims to improve transparency and accountability in the management of public funds, introducing public expenditure programming, and promoting better

evaluation practices. Civil society involvement is a powerful tool for enforcing accountability among public officials and in the delivery of public services. Accordingly, the program focuses on promoting communities' involvement in development, as well as stronger ownership and leadership from local government officials. This will be supported by reform of the public sector and the civil service.

A CPS Progress Report (CPS-PR) prepared in June 2011 confirmed the pillar of the CPS remain valid, but also indicated the need to adapt the Bank's program to reflect the following important changes: (i) the global economic and financial crisis; (ii) a significant change in the political landscape and the opportunity created by the reform mandate given to the Government by the

Moldovan people; and (iii) the country's European integration agenda. The CPS-PR extends the CPS to FY13 and envisages a DPO series to support the Government's competitiveness and private sector job creation agenda. In addition, the CPS-PR will consider one or two new IDA lending operations per annum, for annual commitments of approximately USD 50 million. Tentative sectors are Health, Agriculture, Education and Public Financial Management, but the final choice and timing of investment lending will be driven by the principles of comparative advantage in areas in which the Government is ready for and committed to necessary policy reforms.

The Bank's current portfolio includes 11 investment projects, all of which are proceeding in

a satisfactory manner. Total commitments amount to USD 271.3 million, and the disbursement ratio constantly exceeds 20 percent annually. The ongoing IDA portfolio is broad ranging, covering almost every sector but with a highest concentration of operations in infrastructure, human development and rural development. The World Bank also administers a substantial US\$71 million trust fund portfolio, the largest in the Europe and Central Asia region, which provides co-financing to IDA operations, finances GEF and carbon operations, and provides other forms of support, such as an USD 16.7 million Regional Development TF with the EC, and an USD 6.15 million Public Administration reform Multi Donor TF

## **Analytical and Advisory Program (AAA)**

AAA delivered in FY10-11 include a Country Procurement Assessment Report, a Country Economic Memorandum, a District Heating Restructuring Study, a Public Expenditure Review, and ongoing TA for Financial Sector Monitoring, agricultural policy revision, A&A ROSC follow-up, and Chisinau energy supply improvement. The Bank prepared Policy Notes with recommendations in the education, health, pension, productive and social protection sectors to address the issues of public expenditure efficiency. Additionally, the Bank helped the Ministry of Finance become fully transparent on its public finances, disclosing its budget in the BOOST database in May 2011. These TA products will be instrumental in moving forward

the structural reforms agenda and developing a second growth engine for Moldova based not only on remittances but also on exports and investments. Possible future AAA includes programmatic fiscal work, follow-up work on competitiveness and structural reforms, and PFM TA. Sector-specific analytical work to complement the proposed lending program could take place in energy, education rationalization, agriculture, and food security. AAA in the financial sector could include work to improve the intermediation of remittances, financial sector monitoring to support crisis resilience and market development measures, and an FSAP update with focus on development issues.

## Looking Ahead

Moldova needs to find a sustainable growth model that creates jobs and opportunities for young people. Private investment, including FDI, and exports will need to play a more prominent role in addition to the dominant drivers of remittances and domestic consumption. Remittance-led growth is not 'bad growth' and remittances will remain a very important share of Moldova's economy for a long time, with the incentives for a worker to migrate undiminished in the short to medium term. Moldova should therefore seek to maximize the development gains from migration. Remittances – if captured by the banking sector and efficiently intermediated – could be used to fuel growth, for instance by helping to finance a second growth engine of exports. However Moldova does need to broaden the base of the economy.

Trade integration with product specialization is always important for a small remote poor country. Moldova's total population of 3.6 million in 2009 and that of its two largest cities are arguably too small to support large scale manufacturing clusters with adequate skilled labor supply and buoyant consumer demand. There are therefore sound reasons to believe that Moldova's prosperity will depend in future, as it has traditionally in the past, upon specializing in the export of agro-based products to its neighbors. In the world of modern supermarket value chains, this will require that Moldova becomes highly efficient in cold storage, packaging and transport logistics, where the country now ranks low by international comparisons. To access the more demanding EU food markets will require investments in quality and standards.

Moldova needs to resurrect agro-based exports, to raise their value by exporting existing products to new, higher value markets rather than seeking to diversify into new goods for export. Reforms must emphasize correction of policy failures that have eroded the competitiveness and profitability of farming and agro-processing; raising food product quality and safety standards to EU levels; and eliminating inefficiencies in customs and transport logistics which restrict trade in goods, especially to EU markets.

Moldova could also develop service exports in order to provide job opportunities for underemployed tertiary graduates. Reform emphasis should be on unleashing the potential of ICT to generate productivity gains throughout the economy, and in particular to support nascent exports of business service and software outsourcing.

Shortcomings in Moldova's investment climate are limiting the profitability of businesses and keeping high the cost of doing business, and with that, reducing the prospects of attracting new foreign investment and foreign exporters in a post-crisis world where foreign capital is scarcer. In this regard Moldova might usefully seek to emulate Georgia, another country with difficult geography and similar export products, but a superior investment climate. There are many problems that need to be addressed including; costly over-regulation, poor property rights, expropriation of businesses, and the creation by licensing and regulation of monopolies for export and distribution of agro-based products for which farmers get depressed farm gate prices.

A macroeconomic priority is to sustain the recent gains on fiscal consolidation, and manage aggregate demand and remittances so as to prevent competitiveness loss caused by an appreciation of the real exchange rate. Moldova's public sector is still bloated, inefficient, and heavily skewed towards social projects and transfers to individuals, households and enterprises. Sustaining fiscal consolidation will require holding down public spending and correct emerging underperformances in VAT collection. Other key reforms are optimizing the school system to reduce the costs of education; improving the composition of public capital investments, especially through the local budget, by investing an increasing share in productive infrastructure; rationalizing the public service and payroll to increase staff incentives; improving the adequacy and long run fiscal sustainability of Moldova's pensions. Fixing pensions is the key to unlocking several of the inefficiencies in the public sector.

# Map of Moldova (including breakaway Transnistria region)

IBRD 33448R



## MOLDOVA COMPETITIVENESS ENHANCEMENT PROJECT

### Key Dates:

**Approved:** October 27, 2005

**Effective:** February 10, 2006

**Closing:** June 30, 2012

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	30.0	23.7	6.3
IDA Grant	5.4	**3.7	1.7
Japan TF	5.1	3.8	1.3
<b>Total</b>	<b>40.5</b>	<b>31.2</b>	<b>9.3</b>

\*Source: Client Connection as of September 2, 2011.

\*\* Cancelled USD 0.05 million on 2/2/2006.

Note: Disbursements may differ from financing due to exchange rate fluctuations.



Moldova's private sector has struggled due to low investment levels and resulting limited productivity and export competitiveness. A heavy regulatory burden, limited access to finance and an outdated national system of standards and quality have further strained the competitiveness of domestic enterprises. The global financial crisis caused a further reduction in the already limited external financing options, thus raising concerns over loss of export markets and bankruptcies with ripple effects on the economy.

**The Project Development Objective** is to enhance the competitiveness of enterprises through improvements in the business environment, enhancing access to finance, and making adequate standards, testing, and quality improvement services available to enterprises.

**The Project** aims to achieve this through: (i) the Business Environment Improvement component that will help the Government to implement its regulatory reform agenda for the enterprise sector; (ii) the Modernization of Metrology, Standards, Testing and Quality (MSTQ) Systems component that will strengthen national capacity to provide internationally acceptable (especially EU compatible) MSTQ services; (iii) the Enterprise Access to MSTQ Services component which is helping Moldovan enterprises adopt internationally recognized quality management systems (ISO, etc.) through a matching grant scheme; and (iv) the Access to Finance component, expanded at the Government's request, using additional financing to include a Credit Line for exporting companies to help finance their long-term investment and working capital needs on suitable borrowing terms, as well as maintain and enhance the competitiveness of Moldovan enterprise sector through matching grants to improve productivity, launch new products and expand market presence.

### Results achieved:

1. Number of days required to register a new company decreased by 25 percent, from 20 days in 2005 to 15 in 2011;
2. Percentage of management time spent on meeting regulatory requirements has decreased from 16 percent in 2007 to 10 percent in 2011;
3. The number of annual inspections per firm declined from 17 in 2004 to 4 in 2010;
4. Over 1100 government officials and experts were trained in Regulatory Impact Assessment by 2010;
5. The number of European-Union compatible standards adopted in Moldova reached 2826 by August 2011, from 133 in 2004;
6. The total number of accredited testing facilities available to enterprises reached 112 in 2010 compared to the baseline of 36 in 2005;
7. The total number of international quality management system certifications received by Moldovan enterprises increased to 160 compared to a baseline of 50 in 2004;
8. 47 exporting companies benefited from CEP Credit Line in the period June 2010 to August 2011, in the total amount of US\$ 18.23 million (over 80% disbursement out of the CEP Credit Line financing, achieved in one year).

### Key Partners:

The Bank team works closely with: (i) the Project Implementation Unit of the **Ministry of Economy**; (ii) the Credit Line Directorate of the **Ministry of Finance**; (iii) and the **Moldovan Chamber of Commerce and Industry**.

**Key Development Partners** include: Japan's Technical Assistance Grants Program in regard to technical assistance activities under the Business Environment and MSTQ components; USAID BIZPRO project in regards to provision of on-going support to the Commission for Regulatory Reform; and EBRD.

## MOLDOVA COMMUNITY FORESTRY PROJECT

### Key Dates:

**Approved:** May 26, 2009

**Effective:** May 26, 2009

**Closing:** December 31, 2014

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Government of Moldova	10.00	10.00	0
BioCarbon Fund	2.61	0	2.61
Japan	1.00	0.51	0.49
<b>Total</b>	<b>13.61</b>	<b>10.51</b>	<b>3.10</b>

**\*Source: Carbon Finance Assessment Memorandum and Client Connection as of August 29, 2011.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



Lack of adequate forest cover represents a significant environmental and economic challenge in the Republic of Moldova. The resulting degradation and erosion of agricultural land adversely affect rural communities. Manifestations of soil erosion are a serious problem for about one-third of all agricultural and community land in the country. The ensuing decline in soil fertility reduced crop yields by more than half in some areas. Most of the affected land is in small, patched areas of less than 10 hectares, with little or no economic and/or environmental value. Such land has remained in community ownership as "marginal land", with little interest in its privatization and/or utilization for economic or community purposes. Addressing the problem of "marginal land" by reclaiming its economic and/or environmental value through forestation, while preventing further degradation, is an important instrument in empowering rural communities and ultimately reducing rural poverty.

**The Project Development Objective** is to restore degraded land through forestation to increase economic and environmental use for the benefit of rural communities. In addition to community benefits, the project's forestation activities would support, through restored productivity and conservation of soil, the global objectives of carbon sequestration and reduction of atmospheric greenhouse gas concentrations.

**The Project** sets out to create community forests and protective forest belts on an area of at least 8,157 hectares, with ensuing estimated emission reductions of 2.8 million tons of CO<sub>2</sub> over 30 years. In addition, the project is providing technical assistance to participating communities for improving forest and pasture management. The carbon sequestration activities of the project are currently subject to a validation process under the United Nations Framework Convention on Climate Change (UNFCCC) Clean Development Mechanism procedures. Pending a successful validation (expected by the end of 2011), carbon payments from the BioCarbon Fund will begin.

### Results achieved:

The Project has successfully supported:

1. The forestation of more than 10,000 hectares of degraded land (2,000 more than the initial target), resulting in an estimated sequestration of 600 thousand tons of CO<sub>2</sub> over the Project's five year duration.
2. A national competitive grant scheme for participating communities to provide grant funding for localized capacity building and improvements in forest and pasture management.

### Key Partners:

The Bank team works closely with: (i) **Moldsilva** (State Forestry Agency) which is the implementing agency; (ii) the **Ministry of Environment of the Republic of Moldova**; and (iii) **selected local communities**.

**Key Development Partners** include the Government of Japan which provided grant funding through a Climate Change Policy and Human Resources Development (PHRD) facility.

## MOLDOVA PUBLIC ADMINISTRATION REFORM TA PROJECT

### Key Dates:

**Approved:** July 11, 2006

**Effective:** July 11, 2006

**Closing:** December 31, 2012

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Other Donors (Dutch)	2.42		
Other Donors (SIDA)	6.80		
Other Donors (DFID)	2.47		
<b>Total Project Cost</b>	<b>9.90</b>	<b>4.78</b>	<b>5.12</b>

\*Source Client Connection as of August 29, 2011.

\*\*Including additional financing from SIDA in the amount of \$ 3,7 mln, approved on June 30, 2011

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



The Moldova Central Public Administration Reform (CPAR) Project was launched immediately after the 2005 Parliamentary election, and was announced as a top priority by the country's President. The Government initiated the implementation of the reform based on the newly developed Strategy for Public Administration reform and a detailed Action Plan.

**The Project Development Objective** is to strengthen institutional capacity of the public administration for better policymaking, policy implementation and efficient use of public resources.

**The Project** addresses a number of governance issues by supporting (i) institutional reorganization through support in conducting a functional review, elaboration of relevant legal framework for central public administration and streamlining planning and reporting; (ii) strengthening decision making, strategic planning and policy development through support in elaboration of a methodological framework for institutional planning, ex-ante policy analysis and monitoring of implementation of the national strategic documents; (iii) merit-based professional civil service reform implementation through introduction of a merit-based recruitment, development of civil service legislation, implementation of a Human Resources register, etc.

### **Results achieved:**

A number of important results have been achieved through the ongoing project, as summarized below:

- Institutional reorganization:** Horizontal functional review was conducted in five policy sectors, represented by all government ministries and approximately 110 subordinated government bodies. Recommendations for optimization of allocation of functions have been developed and partially implemented. As a result, an improved separation of policy development and implementation function has been achieved. Consolidation of the Government structure was also achieved by cutting the number of central public administration bodies from 29 to 24 and the number of government agencies from 16 to 8;
- Policy making:** An institutional capacity in terms of a dedicated policy coordination unit has been established in the State Chancellery and competent staff have been hired and trained. Methodologies for the development of the National Development Strategy and sector strategies have been introduced. Each ministry has formulated and approved its Institutional Development Plan, which includes policy objectives and institutional capacity building targets. The National Development Strategy acts as a policy framework for developing a medium-term expenditure framework. A system of *ex ante* policy impact analysis has been developed and introduced for selected policies;
- Human Resources:** The new Law on Public Office and Status of Civil Servant, drafted in line with EU's best practices, was adopted. In total, seven new human resource (HR) management procedures have been introduced, including: government regulations on competitive selection, performance appraisal, probation period, preparation of job descriptions, etc. Personnel policy Division was established within the State Chancellery and its capacity is being strengthened for the purposes of enforcing the civil service law and coordination of HR units. A network of personnel managers has been established to facilitate implementation of relevant rules and procedures across the entire civil service. Training in application of new civil service rules has been implemented.

### **Key Partners:**

The Bank team worked closely with (i) **the State Chancellery of Moldova** and its subdivisions, which are responsible for the overall policy planning, HR policy and project management; (ii) **the Academy of Public Administration (APA)**, a public entity responsible for provision of training and capacity building activities for the civil servants and other public sector employees; and (iii) **the Ministry of Finance (MoF)**, responsible with budgetary aspects related to the implementation of training plans for civil servants.

**Key Development Partners** include the Dutch Government, SIDA and DFID, all of whom have provided grant financing for the implementation of the project.

## MOLDOVA - DISASTER AND CLIMATE RISK MANAGEMENT PROJECT

### Key Dates:

**Approved:** August 5, 2010

**Effective:** November 10, 2010

**Closing:** September 30, 2014

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA	10.00	0.34	10.55
<b>Total</b>	<b>10.00</b>	<b>0.34</b>	<b>10.55</b>

\* Source: Client Connection as of September 2, 2011.

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



Moldova is a country that is highly vulnerable to natural disasters, particularly droughts and floods that have significant social and economic costs. The incidence of such events has seen a marked upward swing in the past ten years. It is also situated in a seismic zone, leaving it vulnerable to powerful, potentially damaging earthquakes. Its vulnerability to natural disasters is accentuated by lack of proper forecasting of weather events, obsolete infrastructure, poor institutional set-up to manage post-disaster situations and other limiting, capacity issues. Another emerging adverse factor is the increasing climate variability and the uncertainty it brings about into agricultural production, and thus the livelihoods of farmers, as well as the country's food security.

**The Project's Development Objective** is to strengthen the State Hydrometeorological Service's ability to forecast severe weather and improve Moldova's capacity to prepare for and respond to natural disasters.

**The Project** aims to strengthen institutional, human and technical capacity for: (i) enhanced weather monitoring and early warning systems for weather-related hazards that can produce timely and accurate hydro-meteorological forecasts and services; (ii) improved management and response times to natural and man-made disasters; and (iii) qualified assistance to farmers for awareness of and adaptation to natural hazards and climate variability.

### **Results to be achieved:**

- Installation of a Doppler radar which would improve the precision of forecasting severe weather;
- Introduction of weather now-casting tools; improvements in data collection, processing and dissemination;
- Establishment of a modern Emergency Command Center and an associated emergency management system;
- Demonstration of climate risks adaptation technologies and agronomic practices to farmers.

**Key Partners:** **Key Partners:** The Bank team works closely with: (i) the Ministry of Environment, (ii) the Ministry of Internal Affairs, and (iii) Ministry of Agriculture and Food Industry.

**Key Development Partners:** Potential linkages are being explored with the Swedish Government and the UNDP.

## MOLDOVA ENERGY II PROJECT

### Key Dates:

**Approved :** November 25, 2003

**Effective:** March 02, 2004

**Closing:** December 31, 2011

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	32.40	29.07	3.33
Sweden	0.70	0.70	0.00
<b>Total</b>	<b>33.10</b>	<b>29.77</b>	<b>3.33</b>

**\*Source: Client Connections, September 2, 2011.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



Moldova's Soviet legacy has left behind a highly inefficient energy and heating sector. Taking into account its high dependence on imported energy, Moldova aims to improve the security and reliability of the energy transmission systems and, therefore, facilitate commercial operation of the power system, both domestically and internationally. Heating systems in many social institutions are 30-40 years old, use coal boilers and are very costly. Winter season closures due to heating system failures are frequent, posing serious health risks to children, hospital patients and staff of social institutions. Improving energy efficiency is a vital element of reducing the country's energy dependence. The heating sector has the biggest potential for energy savings.

**The Project Development Objective** aims to improve the security and reliability of the electricity transmission system and wholesale electricity supply and, therefore, to facilitate unimpeded commercial operation of the power system, and improve the availability, quality, and efficiency of heating in selected priority public buildings (schools, hospitals, and residential buildings for the disabled, and other vulnerable groups).

**The Project components** are: i) electricity system upgrade; ii) heating supply and efficiency improvement; iii) technical assistance for project implementation, and energy sector reforms; and, iv) project management and administration, including the costs associated with the establishment and operation of a Project Implementation Unit and audits.

### Results achieved:

The project contributed greatly to the overall performance of the electricity transmission company (Moldelectrica) in the last five years. The technical and non-technical losses were reduced, as well as the outage rates of Moldelectrica transmission lines and substations. The transmission system rehabilitation has contributed to more reliable power supply. The heating component improved the educational and medical facilities by providing access to heat and hot water over the entire year for many schools and hospitals.

In particular:

1. The outage rates of Moldelectrica transmission lines and substations were reduced by 48% (the initial target was 35%).
2. The non technical losses in the transmission network were nonexistent in 2009, while the non technical losses in the distribution network were reduced by 94.5%, reaching 0.6% in 2009 (the initial target was the reduction of non technical losses in the transmission and distribution networks by 75 %).
3. There were no cases of unserved energy during 2009 (compared with 602 MW in 1999 - the initial target was to reduce unserved energy by 200 MW per year).
4. The technical losses of Moldelectrica were reduced by 11.7% since 2002 (the initial target was 5%).
5. 35 institutions and 37 residential buildings have heat and domestic hot water availability throughout the entire year (including during the winter heating season, which is more than 120 days/year as initially planned). 8,399 students and 1.5 million patients, staff and visitors benefit from facilities heated 120 days or more during the winter season.

### Key Partners:

The Bank team works closely with (i) the **Ministry of Finance of the Republic of Moldova**, which concluded subsidiary agreements with selected municipalities for the implementation of the heating component; (ii) the **Ministry of Economy**, which is the main partner for the implementation of the electrical component of the project, and leads the implementation of the energy sector reform; (iii) **Moldelectrica**, the recipient of the credit resources through on-lending arrangement for the electrical component; (iv) **MEPIU**, the project management unit responsible for monitoring project implementation; and (v) **ANRE**, the Moldovan energy sector regulator.

**Key Development Partners** include SIDA, which contributed to project financing through technical assistance for all the project sub-components, EBDR, and USAID with whom the Bank Team works closely on policy issues.

## MOLDOVA – GOVERNANCE E-TRANSFORMATION PROJECT

### Key Dates:

**Approved:** June 9, 2011

**Effective:** Scheduled by November 2011

**Closing:** December 31, 2016

### Financing in million of US Dollars\*:

Financier	Financing	Disbursed	Undisbursed
Government of Moldova	3.0	0.0	3.0
IDA credit	20.0	0.5	19.5
<b>Total</b>	<b>23.0</b>	<b>0.5</b>	<b>22.5</b>

\* Source: Client Connection as of September 2, 2011.

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



Like many other former Soviet Republics, Moldova has a legacy of a vast bureaucracy that enjoys significant discretionary powers. The Government has many employees, but these numbers do not compensate for excessive and redundant procedures that result in delays in the provision of services. Despite recent advances in ICT, the Government has not re-engineered its service delivery. With few exceptions, citizens and businesses still have to obtain government services the traditional way: repeating again and again the process of waiting in line to obtain multiple documents from different sources to satisfy the requirements of a specific transaction. This way of interacting with the Government costs people time and money, causes dissatisfaction, creates opportunities for corruption, and increases costs to the Government itself.

The Government is committed to transforming the ways it does business. It has made a promise to fight corruption, to enable open Government, and to integrate with the European Union. Information and communication technologies (ICT) can enable this transformation.

**The Project Development Objective** is to transform delivery of selected public services using ICT. This objective will be achieved by: (a) improving leadership capacity, enabling environment and management of ICT in the public sector; (b) using a modern service delivery platform to improve access to public services, and (c) increasing transparency in the public sector.

**Project description.** The project has two components:

**Component 1 – e-Leadership Capacity and Enabling Environment** – will provide support to the e-Governance Center that was recently established to drive Government-wide e-Transformation agenda. Support will also be provided for e-Leadership training and civil servants’ capacity building; strategic communications and partnerships; development of policy, technical, legal and regulatory frameworks; and project management.

**Component 2 – Shared Infrastructure and e-Services Development** – will provide funding for: (a) establishing and implementing the M-Cloud (Government Cloud Computing Infrastructure); and (b) developing a selected number of e-Governance services and shared applications to be delivered through multiple channels, including government portals and mobile phones.

### Results to be achieved by June 30, 2016:

- (a) At least 300,000 citizens will have accessed government services through e-Government portal and mobile phones;
- (b) At least 60 per cent of them will be satisfied with the overall quality of these interactions; and
- (c) At least one quarter of all citizens will be accessing public services online at least once a year, which will reduce the need for face-to-face interactions, and thus, reduce the opportunities for corruption.

**Key Partners.** The Bank work closely with the State Chancellery, which is responsible for executing the project through the e-Governance Center established in August 2010 as a non-profit organization of public interest, subject to commercial law. The National e-Transformation Commission and the Ministry of Information Technology and Communications are playing a major role in driving and approving ICT policy, legal and technical frameworks.

**Key Development Partners** include UNDP and USAID which are engaged in e-Governance reforms through pioneering efforts in developing the policy and legal framework (UNDP) and supporting business climate reform such as e-Tax declaration (BiZTAR, USAID). The Government of Netherlands is considering financial assistance.

## MOLDOVA - HEALTH SERVICES & SOCIAL ASSISTANCE PROJECT

### Key Dates:

**Approved :** June 7, 2007

**Effective:** September 5, 2007

**Closing:** August 31, 2013 [project extended for 2 years in August 2011]

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	17.00	10.24	7.94
Global Crisis Response Grant	7.00	7.00	0.00
Japan TF	1.38	0.94	0.44
<b>Total</b>	<b>25.38</b>	<b>18.18</b>	<b>8.38</b>

**\*Source: Client Connection as of August 29, 2011.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



During the transition in the 1990, Moldova was one of the most negatively affected, with a severe deterioration in the health sector, decreasing life expectancy and premature mortality, mainly from non-communicable diseases. TB and HIV/AIDS also posed serious risks to the population. The health delivery system inherited from the Soviet Union was drastically downsized starting in 1997-98, with pockets of overcapacity and inefficiency remaining. The primary care sector was never developed, and preventive medicine activities were almost non-existent. Starting in 2004 the Government of Moldova launched a series of reforms in health financing with the separation of purchasers and providers and the introduction of social health insurance. In 2007 the new National Health Strategy 2007-2017 was approved, which included institutional financing and management reforms, upgrading health services and building capacity in health policy development, implementation and monitoring. The Bank decided to support the new strategy through the current project.

**The Project Development Objective** is to increase access to quality and efficient health services, and improve efficiency of social assistance services for the Moldovan population. The project aims to: (i) decrease pre-mature mortality and disability through upgraded health services, increased financial protection and increased efficiency of health system; and (ii) increase social assistance coverage among the needy, and decrease leakages.

**The Project** addresses a range of interconnected sector issues by: (i) contributing to further policy developments in the areas of hospital optimization, Public Private Partnerships, health financing and health insurance coverage, human resource management, and payment system reforms; (ii) rehabilitating up to 65 primary health care facilities in rural areas, updating the curriculum, and providing training opportunities for primary care doctors; (iii) setting the basis for the modernization of the National Republican Hospital, the largest referral facility in the country, and the Oncology Hospital, the national referral facility for cancer patients; (iv) strengthening capacity for program implementation and monitoring in both the Ministry of Health and the Ministry of Labor, Social Protection and Family; (v) building a new database for the social assistance programs, and providing computers and training to social workers. Additional financing in the amount of US\$7 million from the Global Food Price Crisis Response (GFPCR) Grant was approved in August 2008.

### **Results achieved:**

1. Rehabilitation and construction of 33 Primary Health Centers (PHCs), in addition to modernization of curriculum for PHC doctors and nurses, and its use in medical schools;
2. Supported key policy developments, such as reform of payment systems for hospitals based on the complexity and number of cases treated, development of Hospital Master Plan and elaboration of Human Resource Strategy for health care sector, identification and implementation of PPP with IFC, and helping build a National Health Accounts (NHA) framework, which would improve its ability to plan, execute and monitor resource allocation decisions in the health sector ;
3. The design of surgical block of the Republican Clinical Hospital has been finalized to enable commencement of construction from EU;
4. Ongoing consolidation of a database for targeted social assistance transfers. A new targeted social assistance system was approved in September 2008, scaling up to 44,200 households as of June 2011. In addition, health insurance law has been revised to provide health insurance to those under the new poverty targeted social assistance program;
5. Helped mitigate the impact of food price shocks through: (i) provision of nutritional supplements to at-risk pregnant women, lactating mothers and infants/young children; and (ii) provision of temporary cash transfers to social institutions to provide food to children, elderly, and other vulnerable groups.

**Key Partners:** The Bank team works closely with: (i) the **Ministry of Health**, which is responsible for the implementation of the health component of the Project; (ii) the **Ministry of Labor, Social Protection and Family**, which is responsible for the implementation of the social protection component of the Project.

**Key Development Partners** include EU, SIDA, DfID, USAID, WHO, UNICEF and other UN agencies engaged in the health-sector which have been running complementary financing operations and coordinate with the Bank team on policy issues.

## MOLDOVA SOCIAL INVESTMENT FUND II PROJECT

### Key Dates:

**Approved :** June 17, 2004

**Effective:** September 15, 2004

**Closing:** March 31, 2013

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	47.00	34.54	13.25
Japan TF	2.53	1.22	1.31
Sweden TF	3.00	3.00	0.00
<b>Total</b>	<b>52.53</b>	<b>38.76</b>	<b>14.56</b>

**\*Source:** Client Connection as of August 29, 2011.

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



In Moldova, poverty is concentrated mainly in rural areas. Moreover, the availability and delivery of many social services to vulnerable groups at the village and town level has suffered greatly. There is, however, strong commitment at the central and local levels to deliver better social services and improve relevant community infrastructure.

**The Project Development Objective** is to empower poor communities and vulnerable population groups to manage their priority needs, and to contribute to employment and wage incomes in selected poor rural communities during the current economic contraction and during the recovery.

**The Project** mobilizes communities to identify, plan and carry out their own investment priorities. The project trains local government and community leaders and provides grants for small-scale sub-projects, such as rehabilitation of schools, health and cultural centers, and water supply and natural gas networks. The impact of the global economic crisis has called for additional financing from IDA to boost the income of poor rural wage-earners through labor-intensive sub-projects. Finally, the project supports planning for delivery of social care services to vulnerable groups, including people with disabilities, unsupervised children, and elderly people.

### **Results achieved:**

The project's main results to date include:

1. Over 700 community-based organizations have been created and have participated in funding of 225 MSIF sub-projects. This has fostered the launch of 105 new projects independent of the MSIF;
2. 549 sub-projects have been completed compared to the initial target of 388;
3. Over 930 thousand people (over a quarter of the country's population) have benefited from MSIF interventions, significantly exceeding the target of 420 thousand;
4. Over 85 percent of beneficiaries reported improvements in services and cooperation between public administration authorities and the citizens;
5. Over one half of rehabilitated schools developed and implemented new educational programs. Student attendance in the winter period increased by 5 percent as a result of gas heating systems installed in schools;
6. Around 500 construction and design companies participated in the implementation of local projects creating over 26 thousand jobs (circa 2 million person days);
7. The project improved access to safe water by building 570 km of water networks, improved access to schools, health facilities and agricultural lands through rehabilitation of 284 km of roads and facilitated access to gas supply and heating for health facilities and household by building over 1,400 km of natural gas networks.

**Key Partners:** The Bank team worked closely with: (i) the **State Chancellery of the Republic of Moldova**; (ii) the **Ministry of Labor, Social Protection and Family**, (iii) the **Ministry of Education** and (iv) the **Ministry of Environment**.

**Key Development Partners** include the Government of Sweden, the Government of Japan, the European Union, which have all provided grants to co-finance MSIF II Project.

## PUBLIC FINANCIAL MANAGEMENT TA PROJECT

### Key Dates:

**Approved :** June 16, 2005  
**Effective:** January 03, 2006  
**Closing:** December 31, 2011

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	8.54		
Government of Moldova	1.19		
Gov. of Netherlands	3.56		
Gov. of Sweden	4.39		
<b>Total</b>	<b>17.68</b>	<b>10.12</b>	<b>9.0</b>

\*Source: Client Connection as of August 9, 2011

*Note: Disbursements may differ from financing due to exchange rate fluctuations*



In the early 2000s Moldova's public sector was characterized by weak institutions, insufficiently robust internal control systems and lack of transparency in government operations. The Government recognized the need to strengthen accountability in the use of public funds in order to increase efficiency and promote modern fiduciary standards as a precondition for improving governance practices and an important element of its Economic Growth and Poverty Reduction Strategy.

**The Project Development Objective** is to achieve effective and transparent management of public finances as an enabler of poverty reducing programs and contributor to economic growth.

**The Project** addresses a number of interconnected public financial management (PFM) issues by supporting: (i) improvements in budget planning and execution through development of new methodologies and installation of a new integrated financial management information system (FMIS); (ii) development of modern internal control and audit systems; and (iii) strengthening financial management training capacity and relevant training activities, which are focused on development of a sustainable institutional training capacity in PFM dimensions.

### Results achieved:

A number of important interim results have already been achieved through the ongoing project, as summarized below:

1. Transparency and efficiency of national budget management were increased through consolidation of all state and local budget balances at the Treasury Single Account;
2. Budget comprehensiveness was improved through consolidation of extra budgetary funds (EBF). The number of EBF was reduced from 14 in 2005 to 5 in 2009. The share of these funds in the total revenues of the national public budget has been reduced by 0.5% (from 1.1% to 0.6%);
3. Alignment of the newly developed budget classification and chart of accounts with international standards has laid a solid foundation for improved transparency of budget reporting;
4. New Methodological Guidelines for budget preparation developed under the project integrate medium-term budget planning into the overall budget cycle and enable stronger links between budget allocations and government policy priorities;
5. Internal financial control and audit systems were strengthened through introduction of National Internal Audit Standards;
6. A modern legal framework to support the implementation of new systems was prescribed in the Law on Public Internal Financial Controls, aligned with European Union requirements and expected to come into force at the end of 2011;
7. Institutional capacity of agencies involved in the budget process is being strengthened through newly developed training programs on various PFM dimensions: 17 training modules have been developed in the field of public financial management and around 1,240 civil servants from central and local public authorities have been trained;
8. Further improvements in budget management processes and procedures are expected with the launch of FMIS, expected to become operational during 2012-2013.

### Key Partners:

The Bank team works closely with: (i) the **Ministry of Finance of the Republic of Moldova** and its subordinated institutions, which are responsible for the overall policy setting as well as for project management; (ii) the **Academy of Public Administration** (APA), a public entity responsible for provision of training and capacity building activities for civil servants and other public sector employees; and (iii) the **Ministry of Economy**, in charge of macroeconomic forecasting.

**Key Development Partners** include the Government of Sweden, the Government of the Netherlands, both of whom have provided grant financing for project preparation and implementation.

## QUALITY EDUCATION IN THE RURAL AREAS OF MOLDOVA PROJECT

### Key Dates:

**Approved :** March 14, 2006

**Effective:** August 7, 2006

**Closing:** May 30, 2012



### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	5.79	4.33	1.46
Government of Moldova	0.19		
IDA Grant	5.79	4.33	1.46
<b>Total</b>	<b>11.77</b>	<b>8.66</b>	<b>2.92</b>

**\*Source Client Connection as of August 29, 2011.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations*

Moldova has demonstrated strong commitment towards improving the quality of education, as illustrated by the incorporation of the education-related Millennium Development Goals into the country's main development document – the National Development Strategy (NDS). During the preparation of the project, the NDS outlined four objectives for the education sector: (i) to improve the quality of education; (ii) to increase access to education; (iii) to raise the efficiency of management within the education sector; and (iv) to improve the integration of children with special educational requirements and vulnerable children into mainstream education. These firm commitments, coupled with the gains made through the first IDA-supported General Education Project, ensured a strong platform for education reform during the preparation of the project and following Board approval.

**The Project Development Objective** is to increase the quality of education in rural areas of Moldova.

**The Project** addresses a range of quality issues in the rural areas through: (i) curriculum modernization and teacher training; (ii) student assessments; (iii) grants to schools; (iv) improving the efficiency of the system through the piloting of school optimization and formula financing.

### Results achieved:

The project has been instrumental in highlighting and bringing to public attention the need for efficiency reforms in Moldova. It is envisioned that, based on the gains made/lessons learned throughout the implementation of the project, education financing reforms would be expanded nation-wide by the Government. Visible progress has been made towards improving the quality of education through curriculum reform, teacher training and the ongoing development of textbook guides.

Main achievements include:

1. Endorsement of the new National curriculum;
2. Establishment of the National Centre for Examinations and Quality Assurance, which enables Moldova to participate in international assessments such as TIMSS and PISA;
3. Moldova's Participation in the PISA 2009 plus
4. Provision of grants for teaching and learning improvements to a total of 1,376 schools;
5. Purchase of specialized equipment for biology, chemistry and physics classes to 204 high schools in rural areas;
6. Piloting a new formula of financing for general secondary schools in two rayons and its subsequent expansion to and additional 9 rayons and two municipalities to start in 2012;
7. Piloting school optimization activities for general schools in two rayons (Causeni and Riscani) with an assessment of quality improvements and savings resulting from optimization currently under preparation;
8. Purchase of 10 school buses in support of school optimization activities.

**Key Partners:** The Bank team worked closely with (i) the **Ministry of Education** which is responsible for the implementation of the project; and (ii) the **Ministry of Finance** which provides policy advice on issues of education financing and budget planning and execution.

**Key Development Partner** is UNICEF, a partner in the implementation of the Education for All – Fast Track Initiative administrated by the World Bank, and for which a third tranche of about USD4 million is being considered.

## MOLDOVA RURAL INVESTMENT AND SERVICES PROJECT II

### Key Dates:

**Approved :** March 28, 2006

**Effective:** July 7, 2006

**Closing:** June 30, 2012

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	25.27	18.81	6.45
IDA Grant	8.37	8.28	0.08
Sweden	9.12	7.36	1.76
Japan TF	1.72	1.72	0.00
<b>Total</b>	<b>44.48</b>	<b>36.17</b>	<b>8.29</b>

\*Source Client Connection as of August 29, 2011.

\*\* Including local contributions by Government, commercial banks and beneficiaries

Note: Disbursements may differ from financing due to exchange rate fluctuations



Moldova continues to be a country with a predominantly agricultural and rural economy. But, in spite of a good endowment with rich soil and potential comparative advantage in major crops, and particularly in high value crops, the under-performance of the agricultural sector and the scarcity of non-farm income earning opportunities contributed to severe impoverishment of the rural inhabitants.

**Development Objectives:** The Project is the second phase of a two-phase Program. The Program objective is to provide long-term support to accelerate agricultural recovery and growth so that Moldova's agricultural and rural sectors can play their full role in providing the underpinnings for future income growth and poverty reduction. Under this overarching objective, this second phase continues to foster post-privatization growth in the agricultural sectors of Moldova by improving access of farmers and rural entrepreneurs to know-how, knowledge and financial services, while building the capacity of the private and public institutions to ensure the sustainability of the activities.

**The Project.** The Rural Investment and Services Project II (RISP) supports the Government's program to address key rural issues, by creating income-earning opportunities and improving productivity through complementary technical assistance and investment support. Support measures include: (i) creating viable rural entrepreneurial legal and organizational structures; (ii) establishing a private agricultural support services system including advisory, marketing and business development support; (iii) improving the sustainability of a rural finance system that serves a large number of dispersed rural clients throughout the country, (iv) deepening the outreach of the banking sector into rural areas; (v) solidifying private ownership of land and other productive assets and facilitating the efficient functioning of land markets; and (vi) providing support to farmers facing repeated droughts with technical assistance and credit facilities for on-farm irrigation equipment.

### Results achieved:

- Over 400,000 farmers are benefiting from high quality services of the national agricultural extension agency – ACSA – established with support from RISP which are positively impacting their production practices;
- Credit lines provided through RISP have created over 1,700 new businesses in high-value agriculture, livestock breeding, small-scale industries, and generated 7,000 new jobs, mainly in rural areas;
- The work to modernize the legal and regulatory framework for Savings and Credit Associations (SCA) has considerably advanced, strengthening the supervisory capacity of the State and ensuring that, among others, only the strongest associations continue to collect deposits;
- Over 40 percent of the population in six selected pilot villages has taken part in a land re-parceling exercise, prompting the government to scale up this activity to an additional 40 villages. Lessons from all 46 villages are being integrated into a government strategy.

**Key Partners:** The Bank team works closely with: (i) the **Ministry of Agriculture and Food Industry**, (ii) the **Ministry of Finance** and (iii) the **National Commission on Financial Markets**.

**Key Development Partners** include the Government of Sweden which has provided co-financing and the Government of Japan which has provided parallel financing.

## MOLDOVA - SOIL CONSERVATION PROJECT

### Key Dates:

**Approved:** January 16, 2006

**Effective:** June 16, 2006

**Closing:** December 31, 2015

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Prototype Carbon Fund	5.44	0.78	4.66



### **\*Source Client Connection as of September 2, 2011.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations*

Lack of adequate forest cover represents a significant environmental and economic challenge in the Republic of Moldova. The resulting degradation and erosion of agricultural land adversely affect rural communities. Manifestations of soil erosion are a serious problem for about one-third of all agricultural and community land in the country. The ensuing decline in soil fertility reduced crop yields by more than half in some areas. Most of the affected land is in small, patched areas of less than 10 hectares, with little or no economic and/or environmental value. Such land has remained in community ownership as "marginal land", with little interest in its privatization and/or utilization for economic or community purposes. Addressing the problem of "marginal land" by reclaiming its economic and/or environmental value through forestation, while preventing further degradation, is an important instrument in empowering rural communities and ultimately reducing rural poverty.

**The Project Development Objectives** are to restore a total of 20,000 hectares of degraded agricultural land to productive uses for rural communities and to build capacity for community-based management of 5,400 hectares of these lands. In addition to community benefits, the project's forestation activities support, through restored productivity and conservation of soil, the global objectives of carbon sequestration and reduction of atmospheric greenhouse gas concentrations.

**The Project** has set out to restore the productivity of degraded pastureland by means of forestation with tree and shrub species adapted to adverse site conditions, while also ensuring estimated emission reductions of 1.9 million tons of CO<sub>2</sub> by 2015. In addition, technical assistance has been provided to participating communities for improving pasture management capacity.

### **Results achieved:**

The two Projects have successfully supported:

1. The forestation of 20,300 hectares. As a result, the project host, Moldsilva – the State Forestry Agency, is receiving regular carbon payments for an estimated total of 1.9 million tons of CO<sub>2</sub> to be sequestered by 2017;
2. The methodology applied in the two Projects was successfully registered with the UNFCCC (AR-AM0002) and can now be applied to other forestation/reforestation projects in the world;
3. The Projects have supported the implementation of a national competitive grant scheme for participating communities that provided grants to more than 50 localities for capacity building activities aimed at improving management of more than 6000 hectares of community land (mostly pastures).

### **Key Partners:**

The Bank team works closely with: (i) **Moldsilva** (State Forestry Agency) which is the implementing agency; (ii) the **Ministry of Environment of the Republic of Moldova**; and (iii) **selected local communities**.

## MOLDOVA – STRENGTHEN THE EFFECTIVENESS OF THE SOCIAL SAFETY NET RBF SIL

### Key Dates:

Approved: June 9, 2011

Effective: Scheduled by October 2011

Closing: June 30, 2016

### Financing in million US Dollars\*:

Financier	Financing	Disbursed	Undisbursed
IDA Credit	37.0	0.0	37.0
Total	37.0	0.0	37.0

\*Source Client Connection as of September 2, 2011.



Moldova's spending on social assistance is large compared with the ECA regional average of 1.6 percent of GDP, and even larger as compared to the region's IDA countries. In 2009, the Government of Moldova (GOM) spent 33.2 percent of its public expenditures, or 15 percent of GDP, on social protection programs. The predominance of categorical benefits, with benefits going to certain groups regardless of their welfare status, resulted in weak targeting accuracy and equity. In this context, a key step in the reform agenda was to design and pilot an efficient, targeted and sustainable program of cash transfers. The Government of Moldova with support from donor community launched a new targeted cash transfer Program called the *Ajutor Social* on a pilot basis in 2008, scaling it up in 2009. The *Ajutor Social* Program is a last-resort, poverty-targeted cash benefit program that combines income- and proxy means-testing to determine eligibility and channel benefits to the poor.

**The Project's Development Objective** is to improve the efficiency and equity of Moldova's social safety net through a fiscally sustainable expansion and strengthening of the *Ajutor Social* Program.

The PDO would be achieved by:

- Supporting the interim transitional costs of expanding the *Ajutor Social* Program and consolidating other benefits. Both activities would be needed for the fiscal sustainability of the social safety net.
- Supporting measures to strengthen the "basic architecture" of the social safety net, with a focus on the *Ajutor Social* program, including mainstreaming the functions of program management, oversight and controls, and monitoring into the institutional structure of the relevant Ministries; strengthening institutional roles and capacities, operating processes, and systems; and promote increased awareness of the program and of the need for reforms.

**The Project** has two components. The first component would co-finance the scaling up of two targeted programs (the *Ajutor Social* Program and targeted Heating Allowances), while supporting the consolidation and downsizing of other benefit programs. It would link disbursements to the achievement of specific results measured by "Disbursement-Linked Indicators". The second component would finance investments to strengthen the basic architecture of the social assistance system, with a focus on the *Ajutor Social* Program. ...

### Results to be achieved:

The project is organized around three results areas, each contributing to the achievement of the PDO:

1. Improved Equity by increasing Coverage and maintaining Targeting Accuracy: expanding the *Ajutor Social* Program to cover at least 20 percent of population in the poorest quintile (up from a baseline of 14.3 percent in 2010), while ensuring that at least 65 percent of the *Ajutor Social* benefits go to those in the poorest quintile;
2. Increased Efficiency: spending on categorical benefits reduced by 30 percent of the pre-reform [2010] level; and
3. Enhanced Administrative Efficiency, Governance and Transparency: turn-around time for processing *Ajutor Social* applications, including verification and eligibility decisions, reduced to 15 days; and losses from irregularities in the *Ajutor Social* benefits are reduced by 30 percent.

**Key Partners:** The Bank team works closely with the **Ministry of Labor, Social Protection and Family**

**Key Development Partners** include: EU, UNICEF, IOM and other UN agencies engaged in social protection sector.