

**Document of
The World Bank**

FOR OFFICIAL USE ONLY

Report No. 28556-MD

**INTERNATIONAL DEVELOPMENT ASSOCIATION
COUNTRY ASSISTANCE STRATEGY
FOR
THE REPUBLIC OF MOLDOVA**

November 12, 2004

**ECCU2 Country Unit
Europe and Central Asia Region**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

The date of the last Country Assistance Strategy Progress Report was May 2002

CURRENCY EQUIVALENTS
(Exchange Rate Effective June 30, 2004)

Currency Unit = Lei
Lei11.95 = US\$1.0
US\$1 = Lei0.08

FISCAL YEAR
January 1- December 31

Vice President:	Shigeo Katsu
Country Director:	Paul Bermingham
Team Leader:	Edward K. Brown
Core Team:	Lawrence Bouton, Kazuko Ogawa, Sergiy Kulyk, Luis Alvaro Sanchez, Maya Sandu, Elena Nikulina, Anush Bezhanyan, Elena Chesheva

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Services
AML	Anti-Money Laundering
BEEP	Business Environment and Enterprise Performance Survey
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CDCF	Community Development Carbon Fund
CDD	Country Driven Development
CFAA	Country Financial Accountability Assessment
CFT	Combating the Financing of Terrorism
CEM	Country Economic Memorandum
CDD	Community Driven Development
CIS	Commonwealth of Independent States
COA	Court of Accounts
CODBS	Cost of Doing Business Studies
CPAR	Country Procurement Assessment Review
CPM	Communist Party of Moldova
CPPR	Country Portfolio Performance Review
EBRD	European Bank for Reconstruction and Development
DFID	Department for International Development
DPL	Development Policy Lending
ECA	Europe and Central Asia
EGPRSP	Economic Growth and Poverty Reduction Strategy Paper
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GEF	Global Environment Facility
HIF	Health Investment Fund
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IOM	International Organization of Migration
JSAN	Joint Staff Advisory Note
JSDF	Japanese Social Development Fund
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organization
NPV	Net Present Value
OED	Operations and Evaluations Department
OECD	Organization for Economic Cooperation and Development
PCB	Polychlorinated Biphenyls
PCF	Prototype Carbon Fund
PFM	Public Financial Management
POPs	Persistent Organic Pollutants
PPG	Public and Publicly Guaranteed (debt)
PPP	Purchasing Power Parity
PRSC	Poverty Reduction Support Credit
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
QAG	Quality Assurance Group
RISP	Rural Investment and Services Project
ROSC	Reports on the Observation of Standards and Codes
SAC	Structural Adjustment Credit
SDR	Special Drawing Right
SIF	Social Investment Fund

SIDA	Swedish International Development Agency
SME	Small and Medium Enterprises
SPA	Social and Political Analysis
SPM	Social Protection Management
STI	Sexually Transmitted Infection
TB	Tuberculosis
TTFSE	Trade and Transport Facilitation in Southeast Europe
UNDP	United Nations Development Program
UNICEF	United Nations Children Fund
UNFPA	United Nations Fund for Population Activities
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization

COUNTRY ASSISTANCE STRATEGY FOR THE REPUBLIC OF MOLDOVA

Table of Contents

EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
II. COUNTRY CONTEXT	1
A. Political Economy and Social Context	1
B. Moldova’s Transition Experience	2
C. Poverty in Moldova.	3
D. Macro Economic Performance, Prospects, and Risks	5
i. Recent Economic Performance	5
ii. External Environment	6
iii. Medium-Term Prospects and Risks	7
E. Structural and Sectoral Developments	9
i. Private Sector Development	9
ii. Infrastructure	10
iii. Human Development and Social Protection	11
F. Governance and Corruption	13
G. Cross-Cutting Issues	15
III. COUNTRY DEVELOPMENT PROGRAM AND ISSUES	16
A. Country Priorities and Agenda	16
B. Feasibility of EGPRSP Implementation	17
IV. BANK GROUP ASSISTANCE STRATEGY	17
A. Implementation of the Last CAS	17
i. Lessons from OED Evaluations and Other Reports	17
ii. IDA Portfolio Management and Performance	18
iii. IFC and MIGA Portfolio Management and Performance	18
iv. CAS Preparation: Participatory Process Followed	19
B. Proposed Assistance Strategy	20
i. Strategic Context	20
ii. Scenarios and Triggers	20
iii. Monitoring and Evaluation	27
iv. Partnership and Coordination	27
v. Managing Risks	28
V. CONCLUDING REMARKS	29

BOX

Box 1:	HIV/AIDS - A Growing Concern	12
--------	------------------------------------	----

FIGURES

Figure 1:	Moldova GDP Changes and Poverty Rates (1997-2002).....	4
Figure 2:	Structure of Scheduled PPG Service, 2004-2015.....	8

TABLES

Table 1:	Moldova: Absolute Poverty and Inequality Statistics, 1997-2002	3
Table 2:	Moldova: Selected Macroeconomic Indicators, 2000-2004	5
Table 3:	Indicative IDA Lending and Non-Lending Services FY05-08.....	24
Table 4:	High Case Triggers.....	25

ANNEXES

Annex A1:	Key Economic and Program Indicators – Change from Last CAS
Annex A2:	Country at a Glance
Annex B2:	Selected Indicators of IDA Portfolio Performance & Management
Annex B3:	Bank Group Program Summary Bank Group Fact Sheet – IBRD/IDA Lending Program Bank Group Fact Sheet – IFC & MIGA Program
Annex B4:	Summary of Non-Lending Services
Annex B5:	Poverty and Social Development Indicators
Annex B6:	Key Economic Indicators
Annex B7:	Key Exposure Indicators
Annex B8:	Operations Portfolio
Annex B9:	CAS Program Matrix
Annex B10:	CAS Summary of Development Priorities

ATTACHMENTS

Attachment 1:	Debt Sustainability Analysis
Attachment 2:	Portfolio Status
Attachment 3:	Link to MDGs and Country Status vis-à-vis MDGs
Attachment 4:	CAS Consultations Process

EXECUTIVE SUMMARY

1. Moldova's last full Country Assistance Strategy (CAS) for FY99-01 was presented to the Board of Directors in May 1999. IDA had initially planned to prepare a full CAS for Board discussion in FY02, but decided to wait until Moldova's full Poverty Reduction Strategy Paper (PRSP) was ready. Instead, an interim Progress Report, discussed by the Board in May 2002, was prepared to provide the basis for continued lending and analytical work during FY02-03. The Government completed and approved its Economic Growth and Poverty Reduction Strategy Paper (EGPRSP - Moldova's version of the PRSP) in June 2004. The EGPRSP and JSAN were discussed at the Board on November 11, 2004. This CAS sets out the lending and non-lending support to Moldova for the period FY05-FY08. It has been prepared in consultation with the Government of Moldova, representatives of civil society, the private sector, and development partners active in Moldova.

2. Moldova's transition to a market economy has been difficult, with high vulnerability to external shocks, a volatile internal political environment, and mixed reform implementation. After declining by more than 60 percent since independence, the Moldovan economy has finally rebounded, with growth averaging 6.7 percent over the last three years. While impressive, Moldova's growth performance remains largely consumption-led, driven mainly by remittances from abroad. With a per capita GDP of only US\$542 and a poverty headcount of 48 percent, Moldova is the poorest country in Europe. The Government considers poverty reduction, and in particular achieving the Millennium Development Goals (MDGs), its major challenge and has undertaken extensive consultations in developing its poverty reduction strategy, the EGPRSP. The EGPRSP aims to achieve over the medium-term (2004-06): (a) sustainable and inclusive economic growth; (b) reduction of poverty and inequality and increased participation by the poor in economic development; and (c) human development. Meeting the MDGs will require sustained long-term economic growth that disproportionately favors the poor. This calls for policies to maintain macroeconomic stability and improve the rural economy.

3. This CAS is set against the backdrop of a difficult policy environment. The policies and actions proposed in the EGPRSP reflect a significant departure from past unfulfilled policy commitments and policy reversals. It will take some time, however, to ascertain the level of the Government's commitment to the reforms articulated in the EGPRSP. As a result, the CAS takes a cautious approach. It will mainly support interventions at the local/community levels in rural areas and small cities—the two areas with the highest concentration of poverty—employing a Community Driven Development (CDD) approach. These interventions will focus directly on helping Moldova achieve its MDGs, and will consist of selected interventions to improve the quality of and access to social services—education, health, social protection, and community infrastructure. It will also support the Government's effort to implement reforms to eliminate the bottlenecks to growth identified in the EGPRSP—improvements in the business environment and public sector governance. The CAS recognizes that these are areas where the perception gap has been the widest and past efforts at reforms have been less successful. Active dialogue with the Bank and development partners in these areas is ongoing and successful policy actions will allow the Government to demonstrate its sincere commitment to reform. Success also would lead to greater donor support.

4. Over the period FY05-08, planned new lending under the base case will total US\$90 million. Progress in implementing the benchmarks outlined in the EGPRSP, including a solid track record in achieving improvements in the business environment and public sector governance, sustained over a period of 12 to 18 months, would trigger a high-case lending scenario. Under the High Case, IDA will be in a position to resume support of structural reforms, possibly through development policy lending and complementary investment credits, with an additional US\$47 million in lending. The

Bank's non-lending program is tailored to provide the analytical underpinnings for lending, and would include studies to improve pro-poor targeting of IDA resources.

5. A number of measurable improvements are expected by the end of the CAS period, including:
 - ?? An increase in social assistance targeted at the poor from 60 percent to 85 percent;
 - ?? Improvements in the quality of basic (primary and lower secondary) education, and an increase in primary school net enrollment in rural areas from 96 percent to 98 percent and upper secondary from 28 percent to 35 percent;
 - ?? Greater involvement of civil society in public policy, increase in civil society participation in delivery of social services, and monitoring of government programs;
 - ?? Lowering of the cost of doing business to South Eastern Europe standards in the area of customs clearance, time and cost of registering a new business, and obtaining licenses and permits; and
 - ?? Lowering of perception of corruption in government, by a reduction in single source procurement from 45 percent to 20 percent of the total number of contracts, and from 51 percent to 15 percent of the total value of contracts.

6. The current portfolio will contribute to attaining the CAS outcomes. New IDA lending is designed to complement ongoing operations in achieving these results, with an emphasis on providing assistance to the poorest segments of the population, and on supporting greater transparency in the handling of public funds and a better business environment. In addition, a number of new GEF operations will support the Government's actions to address environmental MDGs.

7. IDA's non-lending program, which aims at providing the analytical underpinnings for the investment operations, will focus on: (a) an in-depth assessment of the economy, through a Country Economic Memorandum (CEM), and updates on a number of fiduciary assessments – FSAP (Financial Sector Assessment Program), ROSC (Reports on the Observation of Standards and Codes: Accounting and Auditing), CPAR (Country Procurement Assessment Review), CFAA (Country Financial Accountability Assessment); (b) sectoral policy notes to inform and guide lending in agriculture, social assistance, health, education, disaster management, private sector development, local government and community development, and legal empowerment as well as a People's Voice initiative to enhance civic engagement; and (c) PRSP and poverty assessment updates.

8. The implementation of this CAS faces a wide range of uncertainties, derived from the Government's capacity and commitment to implement the EGPRSP, fiscal pressures, a volatile situation in Transnistria, the forthcoming elections, and changes in the external economic and political environment. Thus, it is possible that the country might not be able to achieve the reform track record necessary to advance to the High Case scenario. The design of the CAS deals with these eventualities insofar as direct budget support from IDA only would be considered if the country meets the high-case triggers, including satisfactory implementation of the EGPRSP. In addition, a CAS Progress Report (mid-term review) would be undertaken after 24 months of implementation to evaluate progress, to assess the continuing relevance of the strategic thrust of the program, and, if necessary, to adjust the program to new and emerging realities in the country. The indicative lending and AAA programs will be subject to periodic reviews with the authorities to ensure continued relevance and alignment with the EGPRSP.

Proposed Agenda for Discussion by the Executive Directors

- ?? The Executive Directors may wish to discuss whether the base case provides adequate support for the EGPRSP and the MDGs.
- ?? The Executive Directors also may wish to discuss whether the focus on governance and improving the business environment as the triggers for the High Case is appropriate.

COUNTRY ASSISTANCE STRATEGY FOR THE REPUBLIC OF MOLDOVA

I. INTRODUCTION

1. This Country Assistance Strategy (CAS) sets out the World Bank Group's planned lending and non-lending support to the Republic of Moldova over the period FY05-FY08. It is aligned with the priorities detailed in the country's Economic Growth and Poverty Reduction Strategy Paper (EGPRSP - Moldova's version of the PRSP). The CAS has been prepared in consultation with the Government of Moldova, representatives of civil society, the private sector, and development partners active in Moldova.

2. The key challenge for Moldova is to sustain and improve upon the recent gains in economic growth and poverty reduction by committing to and sustaining a consistent policy reform and governance improvement agenda. The overall objective of this CAS, therefore, is to assist Moldova in reducing its high level of poverty, the highest in Europe, by: (a) promoting conditions for sustaining growth and employment creation; (b) improving access to social capital and services, and community infrastructure; and (c) improving public sector governance and combating corruption.

3. Planned new lending over the period FY05-08 will total US\$90 million for the base case, and will consist of selected interventions to improve the quality of and access to social services and community infrastructure, foster a good investment climate, and address public sector governance issues. Progress in implementing the benchmarks outlined in the EGPRSP, including a solid track record on improvements in the business environment and public sector governance, would trigger a high-case lending scenario. Under the High Case, IDA would be in a position to resume support of structural reforms, possibly through development policy lending and complementary investment credits, with an additional US\$47 million in lending. The Bank's non-lending program is tailored to provide the analytical underpinnings for lending, and would include studies to improve pro-poor targeting of IDA resources.

4. A CAS Progress Report (mid-term review) will be undertaken after around 24 months of implementation to evaluate the continuing relevance of the strategic thrust of the program and, if necessary, to adjust the program to new and emerging realities. In addition, the indicative lending and analytic programs will be subject to periodic reviews with the authorities to ensure continued relevance and alignment with the EGPRSP.

II. COUNTRY CONTEXT

A. Political Economy and Social Context

5. **Background.** The Republic of Moldova, geographically situated between Ukraine and Romania, has a population of about 4.2 million (of which 601,700 reside in Transnistria) and a territory of 33,800 km². Moldova has few natural resources and it is almost entirely dependent upon imports for its primary energy requirements. Given its endowment in rich agricultural land and a temperate climate, the country has relied heavily on agriculture throughout its history. Currently, agriculture and agro-processing activities account for roughly 30 percent of Moldova's GDP and a significant part of the population is still directly engaged in the sector. Ethnic Romanians account for approximately 64 percent of the population, the rest being of Ukrainian, Russian, Gagauzian (Turkish), Bulgarian, and other origins.

B. Moldova's Transition Experience

6. **Difficult Initial Conditions.** Moldova's transition to a market economy has been difficult. Following the collapse of the Soviet Union, Moldova faced one of the deepest and most prolonged recessions among the transition economies. As with many of these economies, independence brought an end to the system of subsidies and transfers from which Moldova benefited. This large systemic terms of trade shock was exacerbated by the effects of a number of other initial conditions. Among these were an obsolete industrial sector integrated into the Soviet economy, inadequate institutional development and capacity, and a dependence on agriculture that, with the demise of its energy intensive irrigation system, left the economy exposed to adverse weather-related conditions. These conditions were compounded by a mixed record of structural reform implementation and exposure to a number of external shocks. As a consequence, in the 13 years since independence, per capita GDP has dropped by more than 55 percent and poverty has grown significantly, accompanied by an increase in inequality. Indeed, the incidence of poverty in Moldova is now the highest in Europe.

7. **Transnistria.** Independence also generated internal political conflict. The civil war that erupted in 1992 left a separatist government in control of the eastern territory of Moldova known as Transnistria. Transnistria contained a significant part of Moldova's industrial base, making Moldova even more dependent on agricultural production and imported energy and creating a fractured customs space with important implications for smuggling and tax revenue mobilization.

8. **Mixed Reform Implementation.** Moldova was viewed as an early and successful reformer. Macroeconomic stabilization was achieved relatively quickly and a number of important first generation reforms were undertaken, such as trade, price, and exchange rate liberalization. The momentum behind these initial reform efforts, nevertheless, was not maintained and Moldova's reform experience has since followed a decidedly stop-and-go pattern. For a brief period following the 1998 Russian financial crisis, a weak coalition of pro-reform parties succeeded in implementing a number of important, reform measures, including rationalization of the energy sector, pension reform, land privatization, and WTO membership. The political consensus backing the reformers, however, was fragile and the government failed to develop broad pro-reform constituencies. Political infighting among coalition partners, popular discontent at falling living standards, and the slow and unsatisfactory outcomes of the reforms, combined with the growing and pervasive level of poverty, led to the decisive victory by the Communist Party of Moldova (CPM) in the 2001 elections.

9. The current CPM Government blames the sharp rise in poverty on the structural reforms undertaken by previous governments and accuses these administrations of being highly corrupt. The electoral platform of the current government promised, among other things, to increase salaries and pensions, halt corruption associated with the privatization of state-owned enterprises, and control the price of basic commodities and utilities. The economic recovery that began in 2000 has allowed the government to partly deliver on many of its election promises, thereby bolstering the support of its base constituencies. The Government has followed a more dirigiste approach, creating barriers for business and rent-seeking opportunities that have exacerbated corruption. It also has reversed some earlier-completed privatization deals, as well as some accomplishments of past programs of reform. These actions have created a difficult environment for policy dialogue, both internally and with the IFIs.

10. Several additional factors have contributed to this difficult policy environment. Most important, the resumption of growth has convinced the Government of the effectiveness of its interventionist policies. However, the suspension of both the IMF program and IDA's adjustment

credit (SAC3) point to a significant perception gap. The collapse of these programs has also had an effect on the attitude of other donors and there is a significant risk that Moldova, with its hesitant efforts at reform, will end up isolated from the international community. The forthcoming elections in early 2005 are likely to inhibit any immediate progress on the reform agenda. However, the actions proposed in the EGPRSP and the announced interest in a closer relationship with the EU, represent a change in policy direction and open a window of opportunity for productive dialogue, possibly closing the perception gap. This window of opportunity may widen following the 2005 elections.

C. Poverty in Moldova

11. Moldova is the poorest country in Europe. Per capita GDP (2003) was US\$542, and US\$2,428 in purchasing power parity (PPP) terms (2002). Depending on the measure of absolute poverty used, between 40 and 50 percent of Moldovans are poor and the majority can be considered extremely poor (see Table 1). Furthermore the depth of poverty remains quite substantial. The poverty gap, reflecting the total resources needed to eliminate poverty by bringing the consumption of the poor up to the poverty line, amounted to about 7 percent of GDP in 2002, or on average about 16.5 percent of the poverty line for each poor person.

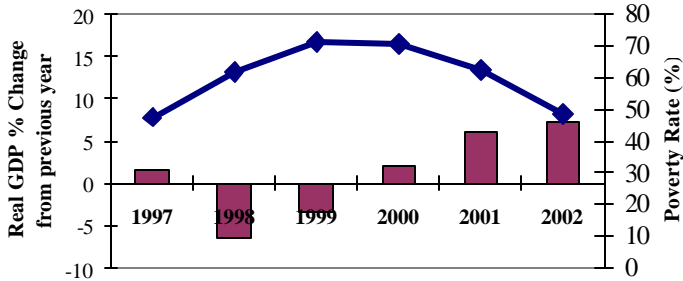
Table 1. Moldova: Absolute Poverty and Inequality Statistics, 1997-2002

	1997	1998	1999	2000	2001	2002
<i>Poverty Measures</i>						
Incidence	47.4	61.6	71.2	70.6	62.4	48.5
Gap	16.5	25.1	29.7	28.9	24.0	16.5
<i>Extreme Poverty Measure</i>						
Incidence	37.5	51.7	61.3	60.9	52.0	37.8
<i>International Poverty Line (\$2.15 PPP per day)</i>						
Incidence	43.4	57.7	67.6	67.1	58.4	44.6
<i>Inequality Measures</i>						
Gini coefficient	0.35	0.37	0.35	0.34	0.36	0.34
90/10 decile ratio	9.9	11.1	9.6	9.3	10.0	9.0

12. **Who Are the Poor?** There are sharp divergences in poverty by location and demographic characteristics. As elsewhere in the CIS, poverty rates in large cities have been lower than rates in small towns and among the rural population. Unique to Moldova, however, is the fact that even in large cities, over one-quarter of the population is poor and one-fifth is living in extreme poverty. As in many other transition economies, large households are more likely to be in poverty than small households. Similarly, households with many children and elderly persons are more likely to be poor. Households headed by people over 50 years of age are less likely to be poor than those headed by people of 30-49 years of age, a reflection of several co-factors, such as returns to experience in employment and pension income as well as household size. Poverty rates are lowest for people in households in which the head has some higher education, but one-quarter of these households are poor. Consistent with patterns for households with more children, poverty rates are higher among children than among adults. Across economic activities, households in which the head is engaged in agricultural activities (mainly hired agricultural workers) are at higher risk of poverty. In fact, two-thirds of households headed by hired agricultural workers are poor. Where household heads are self-employed, household poverty is less likely. This latter category, however, is relatively scarce throughout Moldova.

13. **Poverty Is Strongly Linked to Economic Growth.** One of the key features of poverty in Moldova is its strong link to economic growth (see Figure 1). Following the regional financial crisis in 1998 and the severe contraction in the Moldovan economy, poverty rates increased dramatically, reaching 71 percent of households in 1999.

Figure 1: Moldova GDP Changes and Poverty Rates (1997-2002)



Conversely, between 2000 and 2002, with the turnaround in economic growth, poverty fell from 71 percent to under 49 percent of the population. The strong link to economic growth highlights the vulnerability of the population to poverty. In the event

of another sharp economic downturn, a substantial fraction of the population is vulnerable and will likely fall into poverty. Sustaining economic growth, therefore, will be key to reducing poverty over time.

14. **Coping with Poverty.** While growth has been the driving factor in reducing poverty, social insurance programs also have contributed to poverty reduction. Social insurance programs reduced poverty by between 5 and 11 percentage points, owing to their high coverage. In contrast, social assistance programs, which are meant to be direct instruments of poverty alleviation, failed to make significant gains because of lower coverage, poor targeting, and a mismatch of benefit levels with needs. Besides government assistance, international migration has been a central coping strategy, even though it has high social costs and poses significant personal risks for many. With more than a quarter of the Moldova's working age population abroad, there has been considerable disruption in personal lives and family relationships, as more and more Moldovan children, especially in rural areas and small towns, live without their parents.

15. **Inequalities in Access to Social Services Are Acute.** While economic growth in Moldova has been pro-poor, reducing poverty rates across all locations and demographic characteristics, the emerging inequalities in access to health care and education are changing the distribution of economic opportunities and will lead to increased future welfare differences between the rich and the poor. While the utilization of health care services by the rich has increased, the poor simply forego health care unless it is absolutely critical. The continued bias of public spending in favor of hospital care results in regressive public expenditures on health care. These changing utilization rates across income categories also reflect the increasing importance of informal payments needed to obtain health care services, payments that the poor cannot afford. The low utilization rates by the poor are likely to lead to poorer health outcomes, affecting productivity and placing future welfare at risk.

16. In education, participation in the compulsory level of schooling has been remarkably resilient, the main exception being pre-school enrollment. However, the poor are less likely to seek post-compulsory education. The persistent disparities in enrollments starting from the final years of compulsory schooling and continuing into university education mean that attainment gaps – between rich and poor, and rural and urban populations – are not closing. Given that households with higher education are increasingly more likely to be better off, and since they are better able to invest in the education of their children, the persistent disparities at higher levels reinforce a process which transmits poverty from one generation to the next.

17. **Pathway out of Poverty.** Well-paid employment is a strong pathway out of poverty in Moldova, but job creation has been much lower than job destruction. High rates of job destruction are typical in transition countries; but new jobs need to be created at a faster rate. The services sector in Moldova has yet to emerge as a significant provider of formal sector jobs, and its share in employment has fallen steadily – a sharp contrast with other transition countries. Those who fail to avail themselves of the opportunities typically turn back to subsistence farming for their livelihoods, or migrate to other countries in search of employment. The new private sector is the only source of employment growth in Moldova, increasing its employment by 4 percent per year. These firms account for only a small share of non-agricultural employment. The primary factor behind the low job creation is the high cost of doing business.

D. Macroeconomic Performance, Prospects, and Risks

i. Recent Economic Performance

18. **Turnaround in Growth.** Moldova was the last country in the CIS to see a return to positive growth. After falling by more than 60 percent between independence and 1999, cumulative growth of more than 20 percent has been recorded since 2000. In the last three years, growth has averaged more than 6.7 percent. A number of factors have contributed to Moldova's improved economic fortunes: (a) as a result of the prolonged economic recession, capacity utilization in firms that continued to operate was very low thus allowing production to expand with little additional investment; (b) important structural reforms, including pension reform and

the privatization of two-thirds of the electricity distribution system, that were carried out at the end of the 1990s began to have positive impacts on the economy; (c) the recovery of demand in Moldova's main CIS trading partners has allowed Moldova to slowly recapture export markets lost following the 1998 regional financial crisis; and (d) a marked increase in real wages and pensions, combined with a sizable inflow of workers' remittances, has fueled a large increase in consumer spending, the driving force of the ongoing recovery.

	2000	2001	2002	2003	2004^p
Nominal GDP (\$ million)	1,288	1,481	1,662	1,958	2,594
Real GDP growth rate (percent)	2.1	6.1	7.8	6.3	7.0
CPI Inflation (annual average, percent)	31.3	9.8	5.3	11.7	10.8
Primary Fiscal Balance (cash) (percent of GDP)	3.2	4.1	0.4	2.7	2.9
Overall Fiscal Balance (cash) (percent of GDP)	-3.1	-0.1	-1.8	0.6	-0.7
Current Account Balance (percent of GDP)	-9.8	-4.6	-3.1	-7.3	-7.2
p=projected					
Source: IMF Article IV staff report, December 2003, National Bank of Moldova and World Bank Staff Projections.					

19. **Fiscal and Monetary Policy.** The recovery in growth has also benefited the fiscal accounts. A robust increase in value added tax (VAT) collections and lower interest expenditures (reflecting both lower interest rates and the accumulation of interest payment arrears on external debt) resulted in a fiscal policy that has remained relatively tight over the last three years, with a primary surplus (cash) averaging 2.6 percent of GDP since 2000. The key fiscal challenge continues to be external debt service. In 2003, scheduled public debt service amounted to US\$136 million – about 45 percent of central government revenues. With external budgetary financing scarce following the expiration of Structural Adjustment Credit 3 (SAC3) and with the suspension of the IMF's Poverty Reduction and Growth Facility (PRGF), debt service payments to bilateral and commercial creditors (with the exception of the Eurobond) were halted in August

2003.¹ After declining to single digit levels in 2001-2002, inflation increased noticeably in 2003, reaching 15.7 percent by year-end, partly as a result of unusually large increases in food prices (related to the poor harvest) and a sharp increase in public utility prices.

20. **Remittances and the Balance of Payments.** While exports have grown rapidly, the growth in imports has been faster and has accelerated rapidly in recent years. As a result, already massive trade deficits have deteriorated further, exceeding 30 percent of GDP in 2003. These large trade deficits have been only partially offset by growing inflows of workers' remittances, leading to a widening current account deficit.² Remittances have thus become a major source of domestic financing, contributing about 25-30 percent of GDP and fueling the domestic demand and the rapid growth in imports. Despite central bank intervention, the lei appreciated by 5 percent against the US dollar in nominal terms, and by considerably more in real terms, over the course of 2003 and 2004.

ii. External Environment

21. The disintegration of the Soviet Union had a profound impact on the Moldovan economy and its external trade relations. Yet, unlike many of the other transition economies, Moldova has not significantly diversified its trade patterns. Exports are still concentrated in a few commodities and are still predominantly destined for the CIS market. The high dependence on the Russian market exposed Moldova's vulnerability to regional trade shocks. When the regional financial crisis hit in 1998, Moldova's exports fell by half. With the strong regional recovery, particularly in the Russian market, Moldova's export performance rebounded. While EU import restrictions on key Moldovan exports (i.e., wine) hinder market access, a number of domestic policies negatively influence the ability of exports to penetrate overseas markets. Removal of these barriers will be a prerequisite for the successful expansion of exports to the EU.

22. Moldova's economic vulnerability to the external environment also extends to the fiscal sphere where it has become increasingly dependent on the taxation of imports for fiscal revenue. The taxation of imports provides almost half of total tax revenues, primarily via the VAT and the excise tax on imports. Since the massive growth in imports has been driven largely by consumption, any slowdown in consumption that also curbs imports will have significant fiscal implications.

23. The EGPRSP highlights European integration as a fundamental focus of Moldova's long-term development objectives. The EU has also stepped up its interest in Moldova – with the concept of the “new neighborhood” policy framework – as Moldova will constitute the EU's new border with the accession of Romania in 2007. Deeper integration into Europe, however, has a number of important policy implications, such as the harmonization of legislation on standards, customs, and banking, as well as the willingness to accept political reforms demanded by the EU.

¹ With Moldova's suspension of debt service payments to Gazprom at the end-2001, and to bilateral creditors in August 2003, external payments arrears reached US\$69.9 million at end-2003. During 2004 arrears were reduced to US\$25.2 million as a result of the Gazprom and Hewlett Packard debt buy-back.

² The large unrecorded inflow of workers' remittances creates uncertainties regarding the actual size of the current account deficit. Recent data revisions have resulted in an improvement in the 2003 current account deficit from 11.2 to 7.3 percent of GDP. This correction, however, still leaves some US\$130 million in net errors and omissions, most likely reflecting further unrecorded inflows of remittances.

iii. Medium-Term Prospects and Risks

24. **Medium-Term Growth Prospects.** A number of the factors that have contributed to economic growth in Moldova are likely to persist over the CAS period but are unlikely to sustain the current growth momentum over the medium term. Indeed, the EGPRSP is quick to recognize that Moldova's consumption-led growth experience does not provide the basis for the sustainable growth needed to rapidly reduce poverty. While large inflows of workers' remittances can be expected to continue, it is unlikely that the past rate of growth of these inflows will be sustained. The growth impetus from past structural reform efforts has not been reinforced by new structural reform efforts and the business and investment environment has remained poor and unstable. Foreign investment in Moldova has declined from over 10 percent of GDP in 2000 to around 3 percent of GDP in 2003. At less than 16 percent of GDP, gross investment remains low even by regional standards. The limited extent of domestic savings implies that Moldova will continue to depend on external financial resources. Under the assumption that efforts to implement the economic development program articulated in the EGPRSP fall short in the near term, that no new external budgetary financing from the development partners is forthcoming, but there is no further deterioration in the policy environment, GDP growth in the base case is expected to fall to 6 percent in 2004 and then average 3 percent over the medium term. In the event, however, that the policy or business environment further deteriorates or that Moldova is confronted by a contraction in remittances or export demand, then a further decline in economic growth can be expected.

25. **Debt Sustainability.** Moldova's external debt has grown from almost zero in the early 1990s to an estimated US\$1.7 billion (89 percent of GDP) at the end of 2003. This indebtedness was driven by large and growing external current account deficits in the second half of the 1990s (which averaged 9.7 percent of GDP) and the sharp nominal depreciation of the lei in the aftermath of the Russian crisis. Public and publicly guaranteed (PPG) debt at the end of 2003 was about 52 percent of GDP. Domestic public debt (all short-term) was about 15 percent of GDP. The net present value (NPV) of PPG debt is composed mostly of claims by multilateral institutions (56 percent) – including the World Bank (30 percent), the IMF (15 percent) and the EBRD (8 percent) – and by Paris Club creditors (24 percent), other official bilateral creditors (2.4 percent) and commercial creditors (18.7 percent). According to the indicative policy-dependent debt and debt-service thresholds, Moldova's NPV of debt and debt service could be considered as sustainable in a range of 200-250 percent and 25-35 percent of revenues, respectively. As shown in Attachment 1, the NPV of debt to revenues, however, is projected to fall below the indicative range only in 2007 while the debt service-to-revenue ratio is projected to remain below the threshold only from 2011. It is estimated, however, that with the application of traditional debt relief mechanisms, such as a stock of debt operation on Naples terms from Paris Club creditors and comparable action by other official and commercial creditors, Moldova's NPV debt ratios will fall below the required cutoff thresholds for consideration in global debt relief initiatives, such as HIPC.³

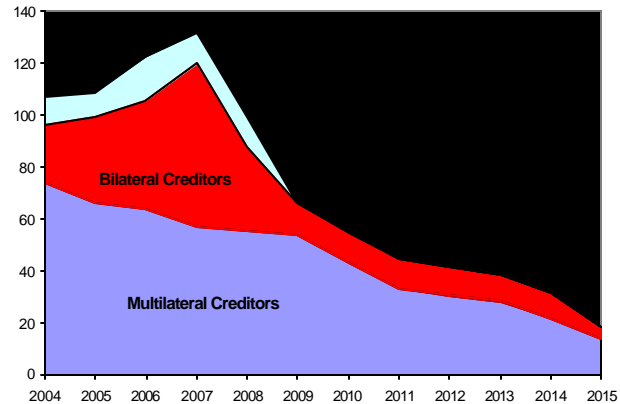
26. With its large public debt service burden and the absence of external budgetary support, Moldova has not remained current on its external debt service obligations. In 2003, Moldova closed its fiscal financing gap by accumulating additional interest and principal arrears (US\$38.9 million or 2.0 percent of 2003 GDP) on its external debt to Gazprom and bilateral and commercial creditors. These arrears constituted nearly one-third of the total interest and principal due (US\$136 million) in 2003. In June 2004, Moldova bought back the US\$115 million

³ To be eligible for HIPC debt relief, the ratio of the NPV of public and publicly guaranteed debt to exports of goods and services must exceed 150 percent (see Attachment 1).

Gazprom promissory notes and accumulated arrears at a discount, with funding obtained from the National Bank of Moldova. A number of other debt buy-backs and restructuring have also taken place. These operations significantly reduce the debt servicing profile, on a commitment basis, over the next three years.

27. As Attachment 1 (Debt Sustainability Analysis) shows, under the base case scenario the NPV of PPG external debt is expected to fall below the sustainability threshold (200-250 percent of Government revenues) in 2007 while debt servicing will remain above this threshold (25-35 percent of Government revenues) until 2011. The analysis points to problems with liquidity and not solvency. As shown in Figure 2, over the CAS period scheduled debt service for the public sector remains heavy (between US\$100 million and US\$120 million until 2007).

Figure 2: Structure of Scheduled PPG Debt Service, 2004-2015
(US\$ millions)



Given this debt servicing profile and the expected absence of significant donor financing, the Government will need to rely on sizable primary fiscal surpluses and domestic sources of financing to cover its external debt obligations. Given the expected slowdown in the economy, as well as planned reductions in personal and corporate income tax rates over the 2005-2007 period, the Government risks not meeting its ambitious revenue targets. With elections scheduled for early 2005, it also will be difficult for the Government to satisfy both its domestic expenditure commitments, including those needed to meet the MDG targets, and its external debt-service obligations. Without significant external debt restructuring, it is likely that the government will be required to issue more state securities, obtain inflationary financing from the National Bank, and accumulate additional external payment arrears to bilateral and commercial creditors. A credible strategy to address the debt problem, however, would involve securing traditional debt relief from the Paris Club (which would require an IMF program), sustainable growth and prudent fiscal management, and demonstrated track record of reform as a basis to seek additional donor resources, including budget support.

28. **The EGPRSP and Improved Growth Prospects.** Implementation of the EGPRSP, including policies to improve the business and investment climate, reduce corruption and further structural reforms, could improve Moldova's medium-term economic prospects. An improved business environment should encourage an increase in foreign and domestic investment and a channeling of workers' remittances away from consumption towards productive investment. The established reform track record would also unleash financial support from the donor community. The financing needed to implement the EGPRSP could be met by a combination of Paris Club rescheduling and external budgetary support from donors, including IDA development policy lending. As indicated in the EGPRSP, under this High Case scenario, growth will be higher, in the order of 5 percent per annum over the CAS period.

29. **Economic Vulnerabilities.** The Moldovan economy remains vulnerable to external shocks. The main driver of the economy will continue to be consumption/worker remittances. However, the large trade and current account deficits that accompany such a growth strategy will not be sustainable unless economic policies trigger a larger domestic supply response. In addition, the dependence of the economy on the agricultural sector leaves it exposed to a number of weather-related shocks. Moldova also suffers from excessive dependence on a limited number

of trading partners and commodities. This leaves Moldova vulnerable to adverse economic developments in its main trading partners, particularly Russia.

E. Structural and Sectoral Developments

i. Private Sector Development

30. **Weak Business Environment.** The poor business and investment climate in Moldova constrains private sector development and is a major impediment to sustainable growth and poverty reduction. The Moldova Investment Climate Assessment (ICA) confirms that although in recent years some positive changes were observed, particularly in the areas of business registration and licensing where substantial legislative and administrative changes were introduced, the existing regulatory environment and its implementation remain inadequate and are at the core of the poor investment climate and limited foreign direct investment (FDI) inflows.⁴ Firms consider themselves to be constrained by the heavy and costly regulatory burden, such as business licensing, permits, registration, inspection, certification, and standardization. Moreover, the regulatory burden in Moldova tends to be comparably greater than in other CIS countries of similar income levels.

31. **Limited Trade and Transport Facilitation.** The total logistics costs in Moldova, estimated at 22 percent of GDP, are the highest in Europe and significantly impede the country's participation in international trade.⁵ The main issues related to the high logistics costs are the poor shape of the transportation infrastructure, corruption at the border, lack of transparency of custom procedures, and overly complicated and numerous documentary requirements – all of which reduce the competitiveness of export and make the country less attractive to foreign investment.

32. **Constrained Agricultural Sector.** In addition to the poor business climate and limited access to finance, the agricultural sector is confronted by a number of other key constraints. The slow restructuring of the agro-processing sector, continued state control of key agri-business industries and ad hoc government interventions in domestic and export markets perpetuate marketing inefficiencies and limit competition that depresses farmgate prices. Without further reforms in agro-processing, returns to investments at the farm level will remain weak, farm productivity and agricultural wages will remain low, and farmers will continue to pursue a subsistence-oriented coping strategy. At the farm level, despite substantial progress in land reform and despite legal and institutional impediments to the development of the land market, the continued threat of reversals in land privatization prevent the emergence of genuinely restructured and consolidated farms, which would form the basis for recovery and growth. The combination of low returns and weak growth performance in agriculture hampers the development of the non-farm economy and the creation of viable off-farm employment opportunities that could pull rural dwellers out of poverty. The vulnerability of the agricultural sector to natural disasters, including floods, droughts, ice storms and landslides, further complicates the agricultural recovery process.

33. **Degrading Environment.** Inappropriate agricultural practices, unsustainable logging for fuel wood and building timber, and unsustainable hunting and harvesting, contribute to the

⁴ In 2004, Moldova passed a new Law on Investment providing equal treatment to foreign investors and guaranteeing protection against expropriation.

⁵ Total logistics costs in EU countries are 10-16 percent of GDP.

degradation of soil and biodiversity resources and increases the vulnerability of the poor to these natural disasters. The low level of forest cover (10.3 percent of the land area) is recognized as a contributor to erosion, floods and landslides. Limited access to insurance mechanisms, savings and credit services, or drought-proofing agricultural technologies inhibits the ability of the rural population to manage and mitigate the respective risks. Agricultural pollution and Persistent Organic Pollutants (POP) stockpiles, in particular obsolete pesticides and Polychlorinated Biphenyls (PCBs) in the energy sector contribute to significant pollution of land and water resources, including ground waters. Lack of access to clean, affordable heating services on the part of most rural households contributes to indoor pollution, while a dilapidated energy infrastructure produces outdoor pollution through excess carbon emissions.

34. **A Healthy Financial Sector with Emerging Risks.** The banking sector is comprised of 16 banks and represents the overwhelming portion of the financial sector. Non-bank financial institutions, capital markets and the insurance sector remain largely underdeveloped, if not embryonic. Overall, the banking sector is reasonably well regulated by the National Bank of Moldova, which has a comprehensive prudential framework in place. Competition among banks for loans and deposits has intensified considerably in the past five years, pushing down interest spreads as banks have increased their total assets threefold to nearly 40 percent of GDP in 2003. Dollarization of the banking system remains high, with nearly half of total assets and liabilities in foreign exchange. The banking system is concentrated in the largest 6 banks. Key vulnerabilities include the growing role of the Government in the banking system and the relatively large number of banks with controlling ownership stakes offshore. The private sector remains confronted by high borrowing and transaction costs with bank lending based on collateral rather than the cash generation capacity of businesses.

35. **Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT).** Although Moldova enacted its first anti-money laundering law in 2001, it is still struggling to effectively operationalize its Financial Intelligence Unit. In many respects, Moldova still lacks appropriate legal tools that would enable officials to identify, investigate, prosecute, and prevent money laundering or terrorist financing, while sufficient capacity does not yet exist in the court systems, prosecutors office, among law enforcement/police officials, or financial sector supervisors to implement a coordinated and effective AML/CFT regime. The recent FSAP indicates there is still a significant need for implementation of fundamental legal tools to address ML/FT as well as training and capacity building.

ii. Infrastructure

36. One of the main risks for sustainable economic growth and reduction of poverty stems from the continued deterioration of the basic infrastructure (roads, water, sewerage, and the housing stock) and the poor financial situation of the energy sector. The lack of investment in and deferred maintenance to an aging infrastructure will continue to limit access to safe water and sanitation, contribute to unhealthy living conditions, degrade the environment, and reduce Moldova's competitiveness. Attracting quality foreign investments, creating jobs and increasing productivity will be more difficult without improvements to the basic infrastructure and the reliability of the energy supply. The main issues in infrastructure are the following:

~~36.~~ **Energy—need for consolidation of reforms.** A slow adjustment to the post-independence realities left the energy sector with large accumulated debts and deteriorating infrastructure due to a lack of maintenance and investment. While significant reforms were undertaken under previous governments, including the establishment of an independent energy regulatory

agency (ANRE), the unbundling of the vertically integrated power utility and the privatization of three out of five electricity distribution companies, under the current government reform efforts have stalled. The main risks include the institutional weakness of ANRE, the incomplete regulatory framework (particularly related to the cross-border electricity trade) and the unfinished privatization agenda. Access to an affordable energy supply is increasingly difficult in many rural and small urban communities where district heating either does not exist or where the centralized heating systems collapsed when it became clear that they were not economically viable.

✍ **Water and Sanitation—in perpetual financial crisis.** The infrastructure of the Apa Canal (the water and sanitation utilities) has deteriorated and the majority of these utilities are in perpetual financial crisis due to low collections, low tariffs, and high water losses. Moreover, about 40 percent of the water in these systems fails to meet sanitary, chemical, or biological criteria. Purchase of safe water represents a disproportionate level of household expenditure, which increases the burden on the poor.

✍ **Transport—extensive but deteriorating.** The existing road network, albeit extensive, has been poorly maintained and no concerted effort has been made to address the needs in line with the changing trade patterns. Moreover, reform of the management and financing of the sector has been slow. The state road administration still operates on the old model, with no segregation of the planning, contract awards and supervision functions from the implementation of civil works, thus impeding the development of a strong private road construction industry and the efficient use of the scarce state resources for road maintenance and rehabilitation.

✍ **Degrading Housing and Communal Services.** The housing stock was privatized after independence; today it is deteriorating rapidly owing to lack of maintenance. The inexistence of organizational capacities for homeowners to undertake collective action, combined with lack of funding and an unclear legal framework, constrains the abilities of households to take action to improve their immediate living conditions.

✍ **Telecommunications—emerging but weak institutional framework.** While certain progress has been made in developing the information and communications network infrastructure and services, their reliability, security, and sustainability remain weak owing to a lack of competitive safeguards and limited private sector investment. Service bottlenecks created by the still state-owned MoldTelecom, and weak institutional capacity are responsible for the continued low levels of access and connectivity.

iii. Human Development and Social Protection

37. The health, education, and social protection systems in Moldova have suffered from the economic decline and stalled policy reforms. In general, the quality of services has declined and the system has been unable to address emerging needs. Despite some reforms undertaken before 2000, the provision of health care, education, and social protection continues to face daunting challenges.

Health–incomplete reforms. Moldova has succeeded in reversing the population’s deteriorating health status, but health indicators continue to lag far behind those in other European countries. Considerable progress has been made in reducing excess health infrastructure, shifting resources into primary health care, and restructuring service delivery. The reform program, however, remains incomplete with a need to further reduce excess capacity in the hospital sector, shift to a financing mechanism that provides incentives to improve the efficiency and quality of care, and introduce measures that improve access to essential care. Today, access barriers to health care remain significant and are strongly correlated with poverty levels, as public expenditures remain skewed in favor of inefficient and expensive hospital care. The growing dependence on out-of-pocket expenditures has led to an increasingly skewed distribution of health care utilization in favor of upper income groups.

Box 1: HIV/AIDS - A Growing Concern

The HIV/AIDS epidemic is escalating after a period of low prevalence. As in other CIS countries, HIV/AIDS in Moldova was at a low level (prevalence less than 0.001 percent) during the first ten years of the epidemic (1987-1996). However, from the mid-1990s onward, HIV infections have surged. As of January 1, 2003, 1,688 HIV-positive persons were registered, and 36 people had died of AIDS. Since 1987, HIV/AIDS prevalence has increased more than 25 times to reach 0.2 percent among adults of the 15-49 age group, ranking fourth in the CIS. Injecting drug use (IDU) is currently the main mode of HIV transmission, accounting for 82 percent of all reported cases. Yet, transmission through unsafe sexual behaviours is also on the rise, especially among young people, constituting about 14 percent of the reported cases. Coupled with high levels of STIs, this presents a significant potential for change in the dynamics of HIV infection.

Education–emerging inequalities. Although access to compulsory schooling (grades 1-9) is high across income groups, disparities begin to emerge towards the end of compulsory schooling as poor and rural children are more likely to drop out before completing the cycle, and thus less likely to continue to upper secondary and university. Although Moldova compares favorably with other CIS countries in basic education enrollments, upper secondary enrollments are substantially lower and reflect to a large extent the much lower continuation rate onto this level by rural and poor children. The fiscal adjustment in the aftermath of the Russian crisis was accompanied by increased out-of-pocket financing including through informal private contributions. Low perceived benefits relative to the costs (including the opportunity costs) of continuing with education appears to be the primary reason why poor and rural families do not continue with schooling. Secondary education is expensive for poor households, and even at the compulsory level out-of-pocket costs are not negligible, yet public expenditures on education do not especially favor the poor. There is some evidence of improvements in the quality of education (as measured by student performance), but challenges remain and inequities persist: many children still do not perform well on tests of basic literacy and numeracy skills; resources in schools are still lacking, and the gaps in performance between urban and rural students are widening.

Social Protection–need for better targeting. *Pensions.* The 1999 reform of the pay-as-you-go pension system has met some of its short-term objectives, such as making pension payments on time, in-cash (as opposed to in-kind), and without the need for budget transfers. Pension reform, however, remains incomplete and the general pension law is not being fully implemented. There are a number of outstanding policy issues to be addressed, including *inter alia*: (i) the pensions of farmers and the self-employed; (ii) the reform of disability and survivors insurance; and (iii) pension privileges for certain categories of the population and certain sectors. Although the administration of the social insurance system has improved in

the last three years, outstanding issues still need to be addressed. These include: (i) moving from a system of awarding pension benefits based on stated wages to one based on contributions actually paid; (ii) significant delays in the introduction of the individual accounts system; and (iii) development of financial management and the IT system.

Social Assistance. Some success in improving the targeting of nominal compensations for the increased energy costs was achieved in 2000 during the energy reform, but existing programs still rely heavily on categorical and discretionary targeting approaches, and as a result 43.6 percent of benefits go to the non-poor. The targeting of social assistance benefits needs significant improvement to effectively target the poor population.

Social Care Services. The quality of the social care services has deteriorated, owing to lack of resources and poor management practices. The system in Moldova is still dominated by expensive institutional/residential care, concentrating on providing living conditions and medical care, rather than social integration and social care. It is not flexible enough to quickly adapt to newly emerging and changing needs (street children, drug users, trafficked women, etc.) nor does it allow disadvantaged groups to receive services within their families and community.

F. Governance and Corruption

38. Moldova inherited weak institutions and has not yet succeeded in building a modern state. As a consequence, ample opportunities for corruption abound. The civil service is politicized, the management of public funds has improved but still lacks transparency and efficiency, local governments have limited capacity to carry out their extensive mandates, the judicial system is not trusted, and civil society has yet to emerge as a significant voice in the country. Not surprisingly, corruption in Moldova is perceived as being very high. The Business Environment and Enterprise Performance Survey II (BEEPS) reports that nearly 60 percent of respondents consider corruption to be a “moderate” or “major” constraint to business, the highest in the region. Excessive regulations, bureaucratic discretion, and associated corruption affect the competitiveness of the economy, put downward pressure on wage rates, and drive people either to emigrate or to join the shadow economy, unofficially estimated at between 30 and 50 percent of GDP.

39. **Weak Civil Service.** Although new civil service rules were introduced officially in 1995, Moldova has yet to internalize the notion of a politically independent, merit-based civil service. Instead, the current public administration represents a mixture of old bureaucratic structures, rules and procedures with some new institutions developed under earlier but currently stalled reforms. Chronic political instability and volatility have worsened the initial lack of institutional capital, while the politicization of the civil service has led to a high turnover of staff, chronic policy discontinuity, a deterioration in operational efficiency, the erosion of institutional memory, and very low staff morale.

40. **Improving Public Finance Management.** In the last few years, the basis for improved public expenditure management has begun to emerge. The EGPRSP process and efforts at developing a Medium-Term Expenditure Framework (MTEF) have brought attention to policy prioritization, strategic planning, and the allocative efficiency of public resource management. Also, public finance management has been strengthened, with real progress achieved in developing the treasury system and improving debt management. This progress serves as a good basis upon which to continue improving the financial accountability framework in Moldova. The budget formulation process needs to be consolidated to provide a comprehensive view of public

revenues and expenditures, and greater coordination is needed within the Ministry of Finance, the revenue authorities, and the spending agencies to improve cash management. The internal and external control frameworks are weak and the existing internal audit organizations need to move from ex-post control and inspection activities to an audit model that is supportive of improving the overall control environment.

41. **Wavering Local Government Reform.** Moldova's local governments share many of the same financial management capacity constraints as the central government. Two attempts to reform local governments have not produced significant success. In 1998 a new territorial administrative system aligned Moldova with the European Charter of Local Self-Government, creating 11 judets, plus the city of Chisinau. The current government reinstated the previous system of 36 rayons. Central to both designs is the preponderant problem of the imbalance between the responsibilities and resources assigned to local governments. This, plus weak local administrations and negligible civil society involvement, further reduces the ability of local governments to effectively deliver on existing mandates. As a first step at redressing this flaw, a fiscal cadastre has been introduced that allows local governments to increase revenues and reduce dependence on the central government.

42. **Judicial Reform—Restarting Stalled Reforms.** An effective judiciary can play an important role in reducing corruption, improving the business environment, and contributing to growth. The Government has introduced several reforms in the legal and judicial sector; the tiers of the court system were reduced from four to three and new Civil and Civil Procedural Codes were introduced. The continuing agenda includes: improvement in the legislative drafting of economic matters; development of the legal education system; restarting of the reform of the court system; promoting of the development of the market for legal services, including access to justice through *pro bono* services; and strengthening of the enforcement of court rulings. Given the dispersed understanding of justice (Ministry of Justice, judges, prosecutors, attorneys-at-law, notaries, bailiffs, the legal academic community, NGOs), there is a need to engage stakeholder participation to reach common understandings. In addition, for any real positive improvements, the independence of judges and entire judicial system from the undue influence of political, business, and corporate interests should be at the core of the reform agenda.

43. **Emerging but Weak Civil Society.** The last two years have witnessed a major surge in civil society activity, and today close to 3,000 civil society groups/ NGOs exist in the country, many of them established with the support of external assistance. The relationship between the civil society/NGOs and the Government has been guarded in the recent past, owing in part to mutual suspicion. Recently, however, under the aegis of the EGPRSP process, there has been a rapprochement, engendered first by the creation of Participation Council⁶ and second, by the extensive consultations with the stakeholders. In addition, the monitoring and evaluation arrangements being proposed under the EGPRSP include civil society groups. Thus, the leadership is beginning to involve civil society groups in the local, regional, and national discourse.

⁶ The Participation Council was created in October 2001 with the aim of ensuring the inclusive participation of all stakeholders in the process of EGPRSP development and implementation. It includes representatives of the civil society, academia, and the private sector, as well as representatives of central and local public administration.

G. Cross-Cutting Issues

44. **Key Gender Issues.** Economic hardships accentuated gender bias in health, education, and employment. Deterioration in health conditions and increasing mortality among men, attributed to suicide, alcoholism, drug use, cardiovascular disease, and other stress-related illnesses, led to a widening of the gap in life expectancy to 8 years between men and women. Between 1990 and 2000, primary school enrollment rates for both sexes rose at all levels. At the higher education level, however, female enrollment significantly outpaced male enrollment, increasing from a female to male ratio of 0.92 in 1990 to 1.29 in 2000. However, during the same period female employment took a down turn. While currently high at 50 percent of total employment, it dropped from 60 percent at the beginning of the 1990s. Moreover, transition has deepened gender-based job segregation, with women heavily concentrated in lower-pay and lower-skilled sectors of the economy.⁷ Also, regardless of education, women are found in lower level jobs and/or lower paying jobs.⁸

45. The erosion of state subsidized services, such as childcare, left women with the double burden of both professional work and increasing household responsibilities, leaving them with less time for training, and/or work, and thus leading to lower paying jobs.⁹ Women's reproductive health has also deteriorated. The proportion of pregnant women with anemia is at an all time high of 45 percent since the beginning of the transition, and it is the highest in the region. Inadequate nutrition, along with poor living conditions and lack of financial resources for personal hygiene, has contributed to a high maternal mortality ratio of 28 per 100,000 live births.

46. Moldova is a major country of origin and transit for the trafficking of women and girls to the Middle East, the Balkans, and other European countries. The International Organization for Migration (IOM) estimates that at least 10,000 women a year go abroad with hopes of finding employment and the local Moldovan news media estimate at least 100,000 young women are held as sex slaves abroad. Moldova is also a leading supplier of underage girls to Russia for sexual exploitation: the Government estimates that 5,000 girls are trafficked to Russia annually.¹⁰

47. **Youth Issues.** Youth (16-30 years of age) make up about one-fourth of the population, and are leaving Moldova in massive numbers, due to poverty and exclusion. The youth in Moldova lack assets in three interrelated dimensions: (i) economic—assets leading to income generation; (ii) social—access to information; associative life activities, social capital activities, and free-time activities; care and guidance; and (iii) participation in decision-making. Youth poverty also covers other dimensions related to the transition age of youthhood: isolation, vulnerability, powerlessness, and idleness—due to lack of free-time activities and safe spaces - all of which encourages risky behaviors such as drug addiction or engagement in illegal activities. These phenomena tend to be particularly acute in rural areas and small towns, where spaces for youth activities and services disappeared during transition.

⁷ "Women 2000, An Investigation into the Status of Women's Rights in Central and South-Eastern Europe and the Newly Independent States," International Helsinki Federation for Human Rights, 2000.

⁸ "Human Trafficking in Southeastern Europe: The Case of Moldova," World Bank, 2004.

⁹ "Women 2000, An Investigation into the Status of Women's Rights in Central and South-Eastern Europe and the Newly Independent States," International Helsinki Federation for Human Rights, 2000.

¹⁰ For all figures on trafficking see "Human Trafficking in Southeastern Europe: The Case of Moldova," World Bank, 2004.

III. COUNTRY DEVELOPMENT PROGRAM AND ISSUES

A. Country Priorities and Agenda

48. **Key Characteristics of the EGPRSP.** The Joint Staff Advisory Note (JSAN)¹¹ identifies four characteristics of the EGPRSP, namely: an inclusive participatory process, an adequate poverty diagnostic, a three-pillar strategy, and an alignment with the MTEF. The EGPRSP process, endorsed by the government, was inclusive as it involved stakeholders and civil society at the national, regional, and local levels. It provided for a wider participation within the government and contributed to better coordination among donors. The poverty diagnostic, based on the recent household budget survey, provided an adequate basis for formulating an anti-poverty strategy. The three-pillar strategy of the EGPRSP called for sustainable and inclusive economic growth, reduction of poverty and inequality and increased participation in the economic development of the poor, especially the most vulnerable groups, and improved human resource development. Finally, the MTEF sector strategies in education, health, and social protection reflect the priorities identified in the EGPRSP.

49. **Three-Pillar Strategy.** The first pillar underscores the importance of maintaining macroeconomic stability, improving the business environment, and accelerating privatization and structural reforms. A high priority is attached to improving the business environment and investment climate to reverse a decline in investment while continuing reforms in agriculture and infrastructure and improving governance. The second pillar seeks to strengthen human resource development through improving the quality of and access of the poor to education and health. The third pillar underlines the need to strengthen social protection and inclusion through continuation of pension reform, improving targeting of social assistance, and improving labor market flexibility. The links of the EGPRSP to the MDGs and Moldova's status vis-à-vis the MDGs are presented in Attachment 3.

50. **Board Recommendations for Strengthening the EGPRSP and Addressing the Implementation Risks.** The EGPRSP and the JSAN were discussed at the Board on November 11, 2004. The Board noted that the EGPRSP is comprehensive and contains critical actions that over time could help foster sustainable economic growth and poverty reduction. They noted a number of priority areas for strengthening the EGPRSP during implementation. These areas include: (a) improving the macroeconomic and fiscal framework by aligning spending plans more closely with realistic projections of fiscal revenues and identifying all sources of financing necessary for their implementation; (b) improving prioritization through strengthening the poverty impact analysis of proposed EGPRSP measures; (c) improving monitoring and evaluation by strengthening domestic capacity, and focusing on outcome indicators in priority areas; and (d) addressing external vulnerabilities through effective implementation of structural reforms and broadening of the economic base.

51. The Board noted with concern several critical areas where current policies do not match those articulated in the EGPRSP. These include slow progress in implementing structural reforms, increased government interventions in economic activity, and the unsustainable medium-term fiscal framework. The Executive Directors noted that these actions may limit the scope for IDA concessional assistance, and urged the authorities to rectify these policy actions, especially

¹¹ Republic of Moldova: Poverty Reduction Strategy Paper and Joint IDA-IMF Staff Advisory Note, October 18, 2004 (Report No. 29648).

in the areas of state monopolies, licensing and regulation, land consolidation and agriculture subsidies, targeting of social assistance and privatization. They underscored the need for the authorities to demonstrate a good track record of implementation. They look forward to clearer signs of government ownership of proposed reforms, and encourage the authorities to engage stakeholders and citizens in monitoring and providing feedback and evaluation of the EGPRSP implementation.

B. Feasibility of EGPRSP Implementation

52. The EGPRSP presented by the Government provides a basis for IDA assistance. The extensive consultation process followed during preparation and the readiness of the Government to accept comments and suggestions signals a significant improvement in the capacity and willingness of the Government to engage a broad range of stakeholders in frank and open dialogue. The results also show that a significant constituency supports the EGPRSP.

53. Despite these important developments, however, it is necessary to stress that implementation of the EGPRSP could prove difficult. The EGPRSP implies a significant departure from the policy actions undertaken during the last three years, with a continuing wide gap between declared intentions as set out in the EGPRSP and actions on the ground. The political environment is fragmented, with strong special interests that resist moves to reform and greater transparency. It is therefore possible that some of the actual policies adopted and implemented by the Government and Parliament may deviate from the intent and content of the EGPRSP.

54. The international community has an important role to play in supporting Moldova's advance towards an open market economy and alignment of its institutions with European practices. Since sustaining such support would be difficult in an environment of mixed policy implementation, IDA will work with other donors to monitor progress in implementing the EGPRSP. The planned CAS Progress Report would provide an opportunity to review implementation performance and to consider possible changes to enhance the program.

IV. BANK GROUP ASSISTANCE STRATEGY

A. Implementation of the Last CAS

i. Lessons from OED Evaluations and Other Reports

55. The Bank's program in Moldova has benefited from several evaluations and analyses over the last two years. The Operations Evaluation Department (OED) undertook a Country Assistance Evaluation (CAE) in mid-2003, reviewing the outcome of 1993-2002 programs.¹² The Quality Assurance Group (QAG) reviewed the Analytical and Advisory Services (AAA) program. In addition, an analysis of the political economy and its implications for IDA lending, including a series of private sector and business environment studies, has been undertaken. Reviews of the business environment include the Cost of Doing Business (2001 and 2003), an Investment Climate Assessment (2003), and ECA-wide Business Environment and Enterprise Performance studies (2001 and 2003).

¹² Committee on Development Effectiveness: Moldova Country Assistance Evaluation, May 14, 2004 (Report No. CODE 2004-0036).

56. The CAE report identified a gap between, on the one hand, the goals of the various programs, which were considered relatively consistent and appropriate, and, on the other, the unsatisfactory development outcome. It noted that past strategies underestimated the difficulty of the transition and made less than candid assessments of the emerging political and social risks. Both OED and QAG pointed out the importance of internalizing evolving political realities in the Bank's work. This suggests a need to test reform commitment and ownership before further development support lending can be considered.

57. Both OED and QAG noted that the AAA program would have benefited from a core integrative macroeconomic piece—such as a Country Economic Memorandum or a Development Policy Review—that included an analysis of the implications of the Government's approach to economic management and a presentation of policy options. QAG rated individual pieces of the AAA work satisfactory, but found that the overall AAA program was implemented in an ad hoc manner.

58. In preparation for a new CAS, an internal Country Portfolio Review found that investment operations have performed well, but have had limited impact in securing broader sectoral improvements. The review recommended: (a) a more frank evaluation of political risk, and greater flexibility in project design to adapt to these risks; (b) to focus the CAS on key thematic bottlenecks (e.g., poor business environment and governance issues) that inhibit project performance, with benchmarks to determine government commitment; (c) no further adjustment lending in the absence of proven reform track record; and (d) better integration of analytic work with the lending program, and fuller participation by affected communities.

ii. IDA Portfolio Management and Performance

59. As of mid-October 2004, the Moldova portfolio comprised 11 ongoing investment operations with net commitments totaling US\$146.2 million (including one GEF-funded grant of US\$5 million), of which US\$106.2 million is undisbursed. The average age of the portfolio is 2.9 years, with 2 projects more than 6 years old. Infrastructure accounts for about half of the portfolio, with operations in human development, private sector development, and rural and agricultural development constituting the other half. The portfolio generally is performing well with only one problem project (Social Protection Management). A summary of the status of the portfolio can be found in Attachment 2.

60. Annual Country Portfolio Performance Reviews (CPPR), chaired jointly by the Bank and the Government, have been held regularly over the last 3 years. The last CPPR in January 2004 broadened participation to include NGOs and development partners and most of the agreed actions have been implemented. Highlights include the establishment of an inter-ministerial Technical Committee to monitor project execution; workshops on disbursements and procurement; and plans for monitoring and evaluation training for project and government staff.

iii. IFC and MIGA Portfolio Management and Performance

61. Since Moldova became a member in 1995, IFC has committed US\$72 million of its own funds and arranged US\$25 million in syndications in the power, telecommunications, agribusiness, SME, and financial sectors. In addition, IFC also has supported technical assistance projects in banking, tourism, wineries, food processing, and leather industries. It continued to provide additional long-term financial resources to commercial banks for on-lending to local corporations, SMEs, and individuals. The country's difficult business climate has had a

dampening effect on foreign and domestic investment, making it difficult for IFC to develop and support new projects. Going forward, IFC will maintain its support in helping develop private enterprises, for example by providing long-term funding through local banks, and through assistance with attracting foreign strategic investors. It will also pursue opportunities to support infrastructure development. Recognizing that investment projects in Moldova require comprehensive technical assistance, IFC will continue to combine investment operations in strategically targeted areas with various non-investment and technical assistance operations.

62. Moldova has been a member of MIGA since 1993. MIGA guarantees have facilitated approximately US\$63.7 million of FDI, in the power, financial and real estate sectors. It has also been involved in mediating disputes (in the power sector) and provided technical assistance to formulate and implement strategies for attracting FDI, with advice and tailored assistance to public and private organizations in image-building, sector-targeting, outreach and information dissemination. MIGA's online information service has 153 documents for Moldova pertaining to investment opportunities and other related legal and regulatory issues.

iv. CAS Preparation: Participatory Process Followed

63. Stakeholder consultations were undertaken during the preparation of this CAS. Those consulted include the Presidency, the Government (central and local levels), the Parliament, the business and financial community, civil society/NGOs, the media, think-tanks, academia, trade unions, opposition parties not represented in Parliament, and donors (bilateral and multilateral). The consultation process helped to create stakeholder contact groups to enlarge the sphere of Bank cooperation and civic engagement, which should help facilitate CAS implementation. Three different large stakeholder groups were engaged in a series of 8 roundtables and meetings: (a) the Government; (b) the business community; and (c) selected civil society groups and organizations from various parts of the country (NGOs, academia, think tanks and research institutes). A CAS website, with an electronic discussion forum, was launched to provide added scope for dialogue with stakeholders, and most consultation events were taped and transcribed. Summaries of the events were posted on the CAS website in two languages, English and Romanian. The electronic discussion forum is ongoing, with suggestions and questions posted on the site. Attachment 4 summarizes the feedback obtained during the consultations.

64. Suggestions from stakeholders complemented feedback from the EGPRSP process and shaped this CAS. Stakeholders welcomed the consultation process initiated by the Bank, commenting that this was long overdue. They expressed concerns about the limited involvement of civil society groups/NGOs in development discourse, repeatedly mentioning the important role they can play. Other issues raised were: (a) the need for a better business environment; (b) corruption; (c) direct financing of beneficiaries to circumvent state bureaucracy; (d) infrastructure development, education, health, and a legal framework; and (f) the need for greater transparency in Government/IFI relations. A follow-up phase of CAS consultation will involve validation and continuing dialogue on the development challenges facing Moldova. This will be initiated following Board discussion of the CAS.

B. Proposed Assistance Strategy

The overall objective of this CAS is to assist Moldova in promoting sustainable growth and reducing its high level of poverty by:

- ☞ Promoting conditions for sustaining growth and employment creation*
- ☞ Improving access to social capital and services, and community infrastructure, and*
- ☞ Improving public sector governance and combating corruption.*

i. Strategic Context

65. This CAS reflects the current country context, the EGPRSP framework, and the country's EU aspirations. It also draws heavily on the 2002 CAS Progress Report, the lessons learned from the OED Country Assistance Evaluation, the Country Portfolio Performance Review, the Poverty Assessment, and a recent analysis of the political economy and its implications for IDA lending. It takes a long-term view of the Bank's assistance to Moldova. Meeting the MDGs, as stated in the EGPRSP, will require sustained long-term economic growth that disproportionately favors the poor. This calls for policies to maintain macroeconomic stability, improve the rural economy and better target social assistance. Under the current constraining financial and institutional environment, the challenges facing Moldova are daunting and will require long-term commitment from IDA and other development partners.

66. This strategy is set against the backdrop of a difficult policy environment. The policies and actions proposed in the EGPRSP reflect a significant departure from past unfulfilled policy commitments. It will take some time to ascertain the level of the Government's commitment to the reforms needed to support the EGPRSP. Against this background, the CAS mainly will support interventions at the local and community levels, employing a CDD approach that relies on the strong involvement of communities and local government authorities. In addition, it will support the Government's efforts to eliminate the key bottlenecks to growth that were identified in the EGPRSP – improvements in the business environment and public sector governance. The strategy recognizes, however, that these are areas where the perception gap has been the widest and past efforts at reforms have been less successful.

67. Each operation supported under this CAS will be based on sound stakeholder analysis, and in collaboration with the authorities and local institutions. The Bank will also involve, as appropriate, civil society in the design and implementation of lending and non-lending services. It is hoped that this approach will help broaden the constituency for reform and help monitor implementation of both the EGPRSP and the CAS. Lastly, the CAS moves away from the input/output based program of the past to a more results-based strategy, designed on the principles of effective Government ownership, anchored in the EGPRSP, and based on true partnership with the Bank and other development partners. The results-oriented framework for this CAS and its linkage with the EGPRSP is presented in Annex B9.

ii. Scenarios and Triggers

68. This CAS defines two scenarios: a Base Case and a High Case. The Base Case reflects the current country context and Moldova's Performance-Based IDA Allocation. Over the four-year CAS period (FY05-08), the Base Case lending envelope will be SDR63 million (US\$90 million equivalent). The High Case provides about 50% more resources, for a total envelope of

SDR96 million (US\$137 million equivalent). The lending and analytic programs described below represent current intentions. Within the overall Base and High Case parameters, and consistent with the overall goals of the strategy, both may be adapted to take advantage of emerging opportunities or unforeseen constraints. A full review of implementation progress will be conducted after a period of around 2 years.

69. The **Base Case** focuses on three pillars, which are aligned with the medium- to long-term poverty reduction priorities detailed in the EGPRSP. These are: (i) promoting conditions for economic stability, growth and employment creation; (ii) improving access to social services, capital and community infrastructure, as well as minimizing environmental risks; and (iii) improving public sector governance and combating corruption.

70. Added emphasis will be placed on learning through joint consultative processes (involving the Government, the Bank, development partners, and stakeholders) to improve policy dialogue, build consensus, and give greater voice to the citizenry to foster heightened public accountability. The indicative lending and AAA programs (Table 3) will be subject to periodic reviews with the authorities, to ensure continued relevance and alignment with the EGPRSP. Additionally, a mid-term review (CAS Progress Report) will take stock of advances in the implementation of the EGPRSP and evaluate the track record in policy reforms, including fulfillment of triggers for the High Case. Based on these assessments, the review could suggest necessary modifications to the Base Case.

Pillar 1. *Promoting Conditions for Economic Stability, Growth, and Employment Creation*

71. The CAS consultations with the business community, the Trade Diagnostic Study, and the Investment Climate Assessment Study all point to the high cost of doing business as a binding constraint to the development and expansion of the private sector (in particular SMEs) and job creation. To this end, the CAS will target actions to reduce the cost of doing business by assisting the Government in simplifying bureaucratic controls and time-consuming approval procedures, and streamlining enforcement to reduce business harassment. Complementary attention would be given to actions to improve corporate governance, broaden financial intermediation, and improve the maintenance of basic infrastructure to facilitate investment and economic activity. In addition, the CAS will support the development of the rural economy, where most of the poor live, and will place emphasis on removing internal barriers that limit the export capacity of the country.

72. **Lending and Non-Lending Support.** The Bank will seek to improve the understanding of the sources of and impediments to growth in Moldova. A Country Economic Memorandum, currently under preparation will build on previous and current analytical work (Trade Diagnostic Study, the Investment Climate Assessment, Poverty Assessment, and Sector Strategy Notes). It will explore policy options for sustainable growth, as well as measures needed to mitigate underlying social and economic risks. In addition, the Bank will support dialogue on financial and private sector reforms, including the development of measurement instruments (surveys, focus groups) to gauge improvements in the business environment. In FY04, a Financial Sector Assessment Program (FSAP), an Accounting and Auditing Assessment (ROSC), and a Country Financial Accountability Assessment (CFAA) were completed. Follow-up technical assistance will be provided to support improvement in the financial accountability framework in the country, including the need to refine the AML/CFT regime. If requested by the Government, the Bank would provide technical assistance for restructuring and management of public debt.

73. IDA will support efforts to improve Moldova's competitiveness and employment creation. Assistance will be provided to establish an institutional framework that reduces the high cost of doing business, particularly deregulation, and limit arbitrary practices in the use of state power. It will build on the successful efforts to regenerate the rural economy through pro-poor growth investment mechanisms, an agricultural advisory network and business development (under the Rural Investment and Services Project (RISP I)) by supporting the next phase of the adaptable program lending on rural investment-RISP II. Support for the next phase will be contingent on continuing the implementation of reforms in the agriculture sector.

Pillar 2. Improving Access to Social Services, Capital and Community Infrastructure, and Minimizing Environmental Risks

74. Critical for sustainable growth and poverty reduction, the CAS supports actions to strengthen human, social, and physical capital. IDA assistance will focus on the targeting of social assistance to better reach the poor and to facilitate their access to quality health, education, and social protection services. Similarly, IDA assistance will seek to address the deterioration in critical infrastructure, such as housing, public utilities, and transportation. IDA also will assist the government in mitigating significant health risks derived from ground water pollution. Lastly, assistance will be provided to address the serious risks posed to rural communities from weather-related events.

75. **Lending Program and Non-Lending Support.** Achieving the MDGs will require targeted attention to selected population groups and to specific factors that foster poverty. Following up on the recently completed Poverty Assessment, the Bank will continue its efforts to help the Government improve its knowledge of the characteristics and causes of poverty. In addition to improving existing household surveys and creating a poverty map for Moldova, this effort will better enable IDA to support the implementation of the EGPRSP and provide needed inputs for other IDA-financed operations.

76. While primary education coverage is broad in Moldova, quality is poor and resources are particularly scarce in rural areas. Further analytical work and investment in rural education will be undertaken. IDA is already helping Moldova address its health MDGs through the ongoing Health Investment Fund project. In collaboration with the Global Fund to Fight Aids Tuberculosis and Malaria, IDA is providing funding for an HIV/AIDS project. Building upon past reforms, IDA will support the Government to improve access by the poor to health services, to better integrate support at the community level, and to identify those areas where a greater effort is needed to achieve the health MDGs. IDA will assist the Government in evaluating the current social assistance system and developing a strategy to improve targeting, particularly cash benefits and nominal targeted compensation. The development of the institutional basis necessary to target social assistance to the truly poor will be an important element of IDA assistance.

77. One of the greatest challenges Moldova faces in reaching the MDGs is in the provision of adequate water and sanitation services to the population. IDA is already supporting this effort through a Water Supply and Sanitation Pilot Project, and a GEF Agricultural Pollution Control Project, which pilots support to agricultural, livestock and land management techniques to reduce nitrate contamination of groundwater. IDA will increase its support in this area by assisting the Government with the implementation of its National Water Plan. IDA assistance will focus on medium-size towns and villages where the problem with potable drinking water and inadequate sanitation is most acute.

78. The CAS supports the EGPRSP effort to improve the environment. IDA will seek support for additional GEF resources, focusing on improved wetland and flood management, ecological restoration and forestation activities, capacity building for management of protected areas, biodiversity monitoring and enforcement. Since the poor have increasingly turned to the use of “dirty” fuels under the impact of the energy adjustment, IDA will utilize GEF resources to help adapt technologies for energy conversion and conservation. IDA has taken a leading role in the early implementation of the Kyoto Protocol and can be an important partner in efforts to develop Moldova’s carbon trading market through new project development, capacity building and the replication of best practices. Among the environmental issues supported under this CAS is strengthening the capacity for Persistent Organic Pollutants (POPs) management, public awareness, and improved pest management for crops.

79. The CAS attaches particular importance to building a culture of local community involvement in public issues by strengthening community capacities to make decisions, and organize and manage funds to improve the quality of basic social and economic services in the participating communities. IDA, through the two social investment funds (SIF I and SIF II), has already had notable success in this area. To build upon this success, IDA will seek to develop institutional mechanisms to enable civil society to interact with public officials to improve the delivery of public services and enhance the overall quality of governance. It will support the strengthening of local government capacity to undertake the new responsibilities placed on these governments under the decentralization reform program and to position them to better involve local communities.

Pillar 3. Improving Public Sector Governance and Combating Corruption

80. Improving public sector governance and combating corruption are of paramount importance for the implementation of the EGPRSP. Within the broad agenda of issues covered under this topic, IDA will place emphasis on improving transparency and accountability in the management of public funds, expenditure programming, and evaluation practices. It will support greater involvement of civil society in exercising accountability over public action and the delivery of public services, focusing attention in particular on community-driven development and stronger local government ownership and leadership.

81. **Lending and non-lending support.** IDA’s assistance will focus on strengthening the programming and management of public resources. This will include assistance to the Government to: (a) institutionalize the Medium-Term Expenditure Framework (MTEF) by building the capacity to develop sector programs based on realistic and prioritized resource allocation; (b) strengthen budget management through a modernized treasury system; (c) strengthen the public finance control framework; and (d) introduce a system of continuous training to assure sustainability. IDA will maintain analytical underpinnings in this area through updates of the CFAA and the CPAR, and will review advances in procurement reform.

82. The recently completed Justice Sector Assessment will enable the Bank to engage the Government, as well as other stakeholders, in a dialogue on legal and judicial reforms in Moldova. In a context where justice is delayed and/or denied either by a lack of political will or by financial constraints, community-driven demand for greater access to justice needs to be promoted and strengthened. The CAS will seek to help the poor advance their legal interests, take actions to secure or enforce their rights, and improve their well-being. Ultimately, legal empowerment of the poor will increase consciousness on legal and judicial reform issues in Moldova, and increase the demand for the rule of law, as well as placing pressure on formal institutions to reform.

**Table 3. Indicative IDA Lending and Non-Lending Services
FY05-08 (Base Case US\$90 million)**

FY05		FY06		FY07		FY08	
Lending							
Operations	<u>US\$ m</u>	Operations	<u>US\$ m</u>	Operations	<u>US\$m</u>	Operations	<u>US\$m</u>
Public Finance Management	10	RISP II	15	Social Assist. Primary Health Care	10	Water & Sanitation	10
		Rural Education	10	Hazard Mitigation Rural areas	10	Local Gov't. Community Infrastructure	10
		Competitiveness (PSD)	5				
Total	10	Total	30	Total	30	Total	20
Non-lending (AAA/GEF/IDF/TF and ongoing)							
?? CEM		?? CAS Progress Report		?? CPAR Update		?? CAS	
?? Agriculture note		?? Poverty Assmt Update		?? PRSP Update		?? Poverty Assmt Update	
?? Education Note		?? PRSP Update		?? Housing Rehabilitation Note		?? PRSP Update	
?? Reconciliation through Education		?? Social Assistance Note		?? FSP/PSD		?? Legal Empowerment TA (JSDF)	
?? Local Gov't. /CDD		?? FSAP Follow-up TA		?? PER			
?? Public Procurement (IDF)		?? CFAA Update		?? Health Note			
?? FSAP Follow up TA							
?? CFAA Follow up							
?? CPAR Follow up							
?? Macro Monitoring							
?? Policy Notes							

83. The **High Case** would be triggered by the benchmarks presented in Table 4, which have been discussed and agreed with the Government. The intent of these benchmarks is to provide a basis for IDA to evaluate the progress made in critical areas that would justify a High-Case scenario. Progress on these triggers would be reviewed regularly, and the CAS Progress Report would evaluate readiness to move to the High Case. Under the High Case, IDA will consider development policy lending (DPL). Among the areas on which such an operation might focus are the critical actions needed to create modern market institutions, with emphasis on policy measures to strengthen the business environment and corporate governance, foster the development of SMEs and the agricultural sector, increase exports, attract foreign investment, and secure the adoption of new technologies. Consistent with the EGPRSP, the DPL would advance the anti-poverty program from a policy perspective and also through the budgetary resources it would provide. The DPL might also focus on public administration and civil service reform, particularly on policy decisions that are needed to advance the modernization of the government apparatus. This might include policy development capacity, pay reforms, staffing rules, code of conduct behavior, assignment of responsibility and accountability, anti-corruption, and the functional reorganization of the Government, as well as the framework for dialogue between the Government and civil society, procurement practices, and access of the poor to judicial and legal services. Based on the Progress Report conclusions and satisfactory attainment of the High Case triggers, IDA would consider funding additional investment operations consistent with the priority actions under the EGPRSP.

Table 4. High Case Triggers

Benchmark	Current value (indicate time)	Target value	How and when the indicator will be measured
1. Meeting the benchmarks spelled out in the EGPRSP's annual implementation plan.		2004/2005 Priority actions.	Report from Government and review with stakeholders: Civil society, and development partners, including IFIs.
2. Maintaining a stable macroeconomic framework and fiscal discipline.	<p>Primary fiscal surplus (commitments basis) of general government in 2003 of 2.3 percent of GDP.</p> <p>Accumulation of new external interest and payment arrears of \$44.5 million in 2003. Stock of domestic expenditure arrears stands at 1.2 percent of GDP.</p>	<p>The 2004 budget targets a primary fiscal surplus of the general government of (commitments basis) of 2.4 percent of GDP. The 2005 budget should target a primary fiscal surplus of the general government (commitments basis) of at least 2.5 percent of GDP.</p> <p>The Government should develop a satisfactory plan to deal with the accumulation of external arrears and the stock of domestic arrears by end-2005.</p>	<p>The annual budget and monthly treasury on the execution of the budget will measure achievement of the budget targets.</p> <p>The plan to deal with external and domestic arrears should be incorporated into the MTEF.</p>
<p>3. Public Sector reform and Governance.</p> <p>(a) Civil Service Reform</p> <p>The Government enforces the Regulation on open, competitive, based on professional merit, recruitment of civil servants.</p> <p>All civil service institutions comply with Regulation # 192 (March 1, 2004) and fill vacant civil service position are filled through an open competitive selection.</p>	Currently there is no control of procedure for appointment of civil servants to vacant positions.	<p>(a) All government entities apply the provisions of the Regulation #192 for filling vacancies for civil service positions below deputy minister and submit quarterly reports on the recruitment decisions to the State Chancellery.</p> <p>(b) All CS vacancies are publicly announced and filled through an open competitive selection process.</p> <p>(c) The government establishes an appeal system, allowing to review individual complaints related to observation of the new recruitment procedures.</p>	The State Chancellery will collect information on recruitment procedures from ministries and government agencies prepare and make public consolidated reports on recruitments of civil servants according to the new rules. On quarterly basis.
<p>(b) Strengthen public Financial Management.</p> <p>Treasury/MoF provides budget-executing agencies with a short-term cash availability forecasts (2 weeks or 1 month) to prevent undertaking unfunded commitments.</p>	Currently budget-executing agencies receive information on cash availability from the Treasury only through individual inquiry. The lack of predictability of cash availability reduces effectiveness of operational management.	Cash availability statements are issued by the Treasury on a bi-weekly basis.	MoF and line ministries will provide information regarding the cash availability reports.
<p>(c) Public Procurement</p> <p>Increased competition for</p>	In 2003, SSP accounted for 45% of the total number of contracts	By June-2005, to 40% of the total number of contracts and to 45% of the total value of contracts,	Monthly reports published by the National Agency

<p>public procurement contracts as evidenced by:</p> <p>?? A decline in the use of Single Source Procurement (SSP).</p> <p>?? An increase in the use of Open Tendering.</p>	<p>awarded and 51% of the total Lei value of contracts awarded, including contracts for utilities services, representing about 30% of the total, where SSP is enforced due to the supplier's monopoly position.</p> <p>In 2003, Open Tendering accounted for 19% of the total number of contracts awarded and 28% of the total Lei value of contracts awarded.</p>	<p>including utilities.</p> <p>By June-2005, to at least 30% of the number of contracts and 40% of the value of contracts.</p>	<p>for Government Procurement (NAGP) on public procurement performance.</p> <p>Monthly reports published by the National Agency for Government Procurement (NAGP) on public procurement performance.</p>
<p>4. Improving the business environment: <i>(a) Facilitate the entry of new firms, functions and exit.</i></p> <p>i) Reduce licensing and inspection costs.</p> <p>ii) Reducing the number of inspections per enterprise per year.</p>	<p>Licensing costs (2002) = \$683; Inspection costs (2002) = \$1893. Number of inspections (2002) per year/firm = 20.</p>	<p>Licensing costs = \$550 Inspection costs = \$1,000 Number of inspections (ECA avg. level) per year/per firm = 12.</p>	<p>Early Warning System (every 6 month) + Cost of Doing Business Survey (annual).</p>
<p><i>(b) Reduce interference of state agents in the activities of private and public companies.</i></p> <p>Reduce import clearance time at TTFSE pilot inland terminal of Chisinau</p>	<p>Time between entrance of truck into the inland terminal and its exit from the terminal after the releases of goods was benchmarked at 500 minutes in 2002.</p>	<p>Consistent with the target values agreed under the TTFSE project import clearance time at the terminal will be reduced to 200 minutes by the end of 2004.</p>	<p>Monitoring system implemented under the TTFSE Project.</p>
<p>5. Improving Social Protection</p> <p><i>Pension reform</i></p>	<p>Some new privileges were reintroduced recently, including reduction in the age of illegibility for mothers with many children, and workers in hazardous conditions.</p> <p>Pension benefits are not linked to individual contribution.</p>	<p>Gradual elimination of the old privileges as per 1998 reform agreement. Any new privileges should be financed from the state budget.</p> <p>Implementation of individual account system. Award of pension benefits based on contributions actually paid and recorded in the individual accounts.</p>	<p>Monitoring through continued policy dialogue and SPM project supervision</p> <p>Calculation of pension benefits based on actual contribution paid as of January 2005.</p>
<p>6. Agriculture</p>		<p>Continued adherence to the Memorandum of Understanding on Agriculture.</p>	<p>Monitoring through policy dialogue and RISP I & II.</p>

iii. Monitoring and Evaluation

84. IDA's proposed lending program includes continued support for improvements in Moldova's monitoring and evaluation capacity through the Public Financial Management project, IDG grants, AAA and cross-cutting elements of various investment elements.

85. While not formally based on a results framework, the CAS program matrix (Annex B9) articulates a results chain for IDA's program and augments the traditional monitoring of progress on inputs and deliveries with a focus on outputs and outcomes that are linked to longer-term country outcomes. It identifies a set of outcome and output indicators to measure progress. An attempt has been made to quantify these indicators with expected target ranges. In some cases, more qualitative information needs to be derived. Where there are gaps in information, IDA will work with the Government during the first year of implementation to identify specific measurements of outcomes.

86. While specific operations have been proposed that will address the higher order outcomes defined in the matrix, the CAS will remain dynamic, responding to changes in the country and the need to redirect resources, particularly if the country should succeed in moving to the High Case. At mid-term, the CAS Progress Report will draw on an in-depth examination of the CAS outcomes and assess whether they remain relevant to the longer-term objectives given changing country conditions.

87. Annex B9 shows the links between the main areas of the PRSP and the CAS program matrix. Where possible, IDA will use data collection mechanisms that will be used in monitoring the PRSP, mainly the longer-term outcomes. For other indicators, the PRSP does not provide all the necessary information. This information will be obtained either through line ministries or via the execution of proposed or ongoing projects.

iv. Partnership and Coordination

88. Coordination among the key donors—IDA, IMF, EBRD, EU, UNDP, and USAID—has been very close, with several joint/parallel operations. The EGPRSP sets the basis for enhanced cooperation with many donors, including the EBRD, DFID, and EU, now planning their next rounds of support.

89. The Bank and the IMF have operated under a clear delineation of responsibilities. As the IMF PRGF program expired in December 2003, discussion of the program renewal is likely to be lengthy and difficult. This uncertainty will have direct implications for other donors' assistance, especially for the availability of funds for budget.

90. **USAID** has been one of the main providers of technical assistance, but the current program is set to expire in 2005. Current USAID activities that are likely to continue include post-privatization support for the agricultural sector, strengthening of local governments, and support for the development of civil society organizations and NGOs. Prospects for continuation/resumption of activities in other areas are less certain. The **EU** Moldova program is framed in the context of the new neighborhood policy, which envisages development of a specific Action Plan setting out overarching strategic policy targets and benchmarks. The Action Plan covers economic integration, emigration, international crime, energy, transport, and telecommunications and support for civil society. The EU Food Security Program has emerged as the main source of targeted policy-based budget support. Work on social protection,

agricultural policies, public financial management, and statistics will be areas of cooperation with the Bank. Grant-funded budget support has been put on hold following the suspension of the IMF program. **EBRD's** recently approved strategy for Moldova supports private sector development in finance, infrastructure, and SMEs. Emphasis on improving the investment climate defines an area of mutual cooperation with the Bank. The **government of Japan** has been among the active donors in Moldova. Japan has provided support for promoting SMEs through its capacity development program to the Agency for Restructuring and Enterprise Assistance Competitiveness and Productivity Center, which served as the Project Implementation Unit for the PSD-I and PSD-II projects. The Japanese PHRD Fund has provided a number of grants to prepare projects in several areas, most recently in public finance management. **DFID** provided support in the preparation of the PRSP and will play an important role in monitoring implementation. It has also been providing technical assistance for building institutional capacity in developing the MTEF. In addition, ongoing IDA-financed projects in agriculture (RISP) and social protection (SIF and SPM) have benefited from DFID contributions. The new DFID country assistance strategy (2004-2007) will focus on improving governance and the institutional environment for poverty reduction, promoting pro-poor sustainable growth, and strengthening conflict resolution efforts.

91. **SIDA** (Swedish International Development Agency) is an active IDA partner in a number of ongoing projects in several sectors, including AIDS, Energy II, HIF, RISP, and SIF. The main directions of SIDA's country assistance strategy, which currently is under preparation, are likely to remain governance, social inclusion, and economic growth. Their small grant program for NGOs is also likely to continue. The **government of the Netherlands** has been a stable provider of budget support, co-financing US\$20 million for the SAC (2001) and the Health Investment Fund (US\$10 million). There is current interest for cooperation in supporting public financial management reforms through technical assistance. **UNDP** has supported the preparation of the EGPRSP and is playing an important role in its monitoring. It also has taken the lead in helping the government elaborate the MDGs and in placing them in the Moldovan context. In addition, UNDP is actively supporting interventions at the central and local levels in capacity building, as well as providing support for civil society groups and NGOs. It will continue to be a major IDA partner in helping Moldova reach the country-specific MDGs. **UNICEF's** agenda includes support in addressing the health needs of mothers and children and the expansion of development practices for early childcare. It is also IDA's major partner in a number of projects in the social sector areas, such as HIV/AIDS, health reform, youth inclusion, and child protection through the SIF. The UNICEF/WB partnership in Moldova is of value, and in some cases collaboration is reflected formally in specific agreements. **WHO** is partnering with IDA in supporting health-financing reforms, including the implementation of the health insurance scheme and in supporting immunization programs.

v. **Managing Risks**

92. CAS implementation faces a wide range of uncertainties, deriving from the Government's capacity and commitment to implement the EGPRSP, increasing fiscal pressures, a volatile situation in Transnistria, and changes in the external economic and political environment. It is therefore possible that the program will not advance to the High Case scenario. Critical risks include:

?? **Macroeconomic instability.** Fiscal management will continue to be a source of considerable uncertainty. The Government may not be able to contain the fiscal pressures stemming from its own promises, especially given the approaching 2005 elections, and additional fiscal

pressures may arise from developments regarding Transnistria. A fall in remittances may lead to an economic slowdown and lower tax revenues (now heavily dependent on imports), provoking further fiscal difficulties.

- ?? **Loss of Budgetary Discipline and Further Accumulation of Arrears.** The absence of an IMF program and IDA program support may preclude a Paris Club agreement on bilateral debt. Under these circumstances, and with lower levels of support from other donors, the Government will struggle to avoid further accumulation of foreign and domestic arrears.
- ?? **Reform Stagnation.** The current policy environment is difficult. The Government has demonstrated uneven commitment to policy reform making it uncertain that it can implement the EGPRSP. It is possible that this uncertainty will remain after the next election, as clear national consensus for reform has yet to emerge. The most likely scenario appears to be a stop-and-go cycle of reform.
- ?? **External Environment.** The transition experience to date has demonstrated the high vulnerability of Moldova's economy to external factors. The concentration of exports in a few commodities primarily destined for CIS markets, particularly its high dependence on the Russian market, increases significantly its exposure to regional trade shocks. Further, Moldova's increasing dependence on the taxation of imports for fiscal revenue presents a fiscal risk, as any slowdown in consumption that also curbs imports will have significant fiscal implications.
- ?? **Transnistria.** While the crisis with Transnistria can be described as low intensity strife, occasional escalations, particularly during election years, have been destabilizing. Despite ongoing efforts to resolve the crisis, analysts believe that it may continue at a low level of intensity over the CAS period, but with unpredictable occasional periods of escalation.

93. **Mitigating Measures.** The structure of this CAS is designed to address these risks by providing incentives to reform. Specifically, higher levels of IDA and other donor support (including development policy lending) only would be available if the High Case triggers, including satisfactory implementation of the EGPRSP, are met. The Progress Report review around 24 months into implementation, will enable the Bank to re-evaluate the strategic thrust of the program and to determine an appropriate line of action. Moreover, the Bank will continue to support broad-based dialogue with all stakeholders in the country and explore ways to facilitate the creation of pro-reform constituencies. While these efforts may take time to achieve results, they are perhaps the only sure way to help Moldova realign incentives toward achieving sustainable economic growth and poverty reduction.

V. CONCLUDING REMARKS

94. The next four years is a critical period. Moldova has prepared a poverty reduction strategy with laudable intentions, which now needs to be implemented to promote pro-poor growth and improve the quality of life of its people. Under the current constraining financial and institutional environment, the challenges are daunting, and require long-term commitment from the Bank and other development partners. This CAS sets out the support the Bank plans to provide to Moldova over the next four years in its effort to achieve this objective.

Moldova: Key Economic & Program Indicators – Change from Last CAS
Prepared for all CAS s/Progress Reports, but included in Board version of Progress Reports only

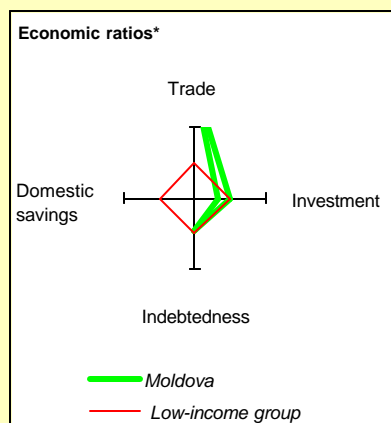
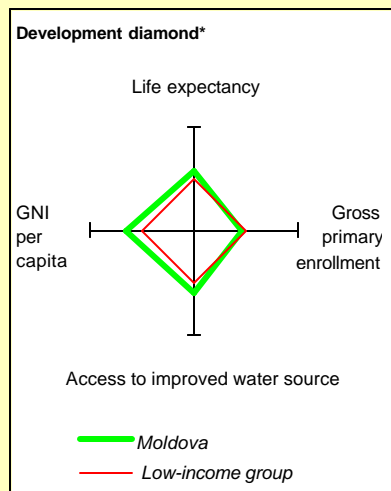
As of 10/1/2004

	<i>Forecast in Last CAS</i>		<i>Actual</i>		<i>Current CAS Forecast</i>				
	<i>2002</i>	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
<i>Economy (CY)</i>									
Growth rates (%)									
GDP	4.8	5.0	7.8	6.3	7.0	5.0	3.0	3.0	3.0
Exports	5.1	8.6	17.8	18.9	11.2	7.9	6.3	5.2	5.3
Imports	10.4	6.3	18.2	9.8	9.3	7.5	5.4	4.9	4.9
Inflation (%) annual average	6.6	8.4	5.3	11.7	10.8	11.4	6.9	5.5	5.0
National accounts (% GDP)									
Current account balance	-7.4	-8.0	-3.1	-7.3	-7.2	-6.7	-6.1	-5.7	-5.1
Gross investment	21.1	21.6	21.7	20.4	19.2	18.8	18.9	18.9	18.9
Public finance (% GDP)									
Fiscal balance	-3.0	-2.4	-1.8	0.6	-0.7	0.0	-0.1	-0.2	-0.1
Foreign financing	0.7	-0.4	0.6	-1.7	-1.6	-1.9	-1.2	-1.0	-1.0
International reserves (as months of imports)	2.7	2.9	2.5	2.7	1.9	1.8	1.8	1.8	1.8
<i>Program (Bank's FY)</i>	<i>FY02</i>	<i>FY03</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>
Lending (\$ million)	45.5	62	45.5	24.7					
Gross disbursements (\$ million)			11.6	29.8					

Moldova at a glance

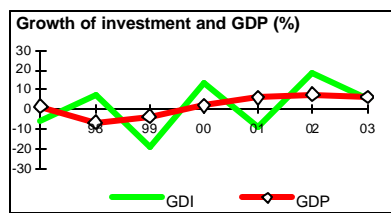
11/16/04

POVERTY and SOCIAL	Europe & Central Asia				
	Moldova	Central Asia	Low-income		
2003					
Population, mid-year (millions)	3.6	473	2,310		
GNI per capita (Atlas method, US\$)	590	2,570	450		
GNI (Atlas method, US\$ billions)	2.1	1,217	1,038		
Average annual growth, 1997-03					
Population (%)	-0.2	0.0	1.9		
Labor force (%)	0.2	0.2	2.3		
Most recent estimate (latest year available, 1997-03)					
Poverty (% of population below national poverty line)	48	..	..
Urban population (% of total population)	46	63	30		
Life expectancy at birth (years)	67	69	58		
Infant mortality (per 1,000 live births)	27	31	82		
Child malnutrition (% of children under 5)	3	..	44		
Access to an improved water source (% of population)	92	91	75		
Illiteracy (% of population age 15+)	1	3	39		
Gross primary enrollment (% of school-age population)	85	103	92		
Male	86	104	99		
Female	85	102	85		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1983	1993	2002	2003	
GDP (US\$ billions)	..	2.4	1.7	2.0	
Gross domestic investment/GDP	..	55.8	21.7	21.7	
Exports of goods and services/GDP	..	39.3	52.3	53.7	
Gross domestic savings/GDP	..	39.8	-3.2	-12.3	
Gross national savings/GDP	..	40.7	15.7	12.5	
Current account balance/GDP	..	-7.7	-6.0	-9.2	
Interest payments/GDP	..	0.1	2.7	1.7	
Total debt/GDP	..	11.7	98.7	88.8	
Total debt service/exports	..	0.4	20.7	9.8	
Present value of debt/GDP	101.6	82.3	
Present value of debt/exports	152.3	111.7	
	1983-93	1993-03	2002	2003	2003-07
<i>(average annual growth)</i>					
GDP	-3.3	-1.8	7.8	6.3	4.5
GDP per capita	-3.0	-1.7	8.0	6.5	4.9
Exports of goods and services	..	5.9	19.8	20.6	7.5

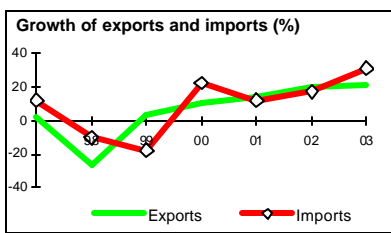


STRUCTURE of the ECONOMY

	1983	1993	2002	2003
<i>(% of GDP)</i>				
Agriculture	..	32.5	24.1	22.5
Industry	..	44.0	23.2	24.7
Manufacturing	..	36.0	17.0	18.4
Services	..	23.5	52.7	52.8
Private consumption	..	44.3	87.1	94.6
General government consumption	..	15.9	16.1	17.7
Imports of goods and services	..	55.4	77.2	87.6



	1983-93	1993-03	2002	2003
<i>(average annual growth)</i>				
Agriculture	..	-2.6	3.7	-9.9
Industry	..	-6.1	3.9	13.4
Manufacturing	..	0.5	2.6	12.8
Services	..	1.5	7.4	9.5
Private consumption	..	7.5	5.2	19.4
General government consumption	..	-7.5	21.0	20.4
Gross domestic investment	..	-6.8	19.0	5.8
Imports of goods and services	..	9.0	17.1	31.2

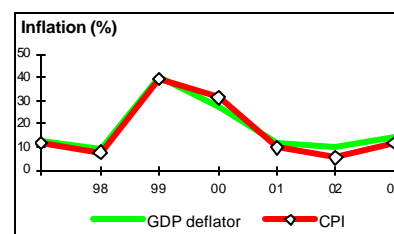


Note: 2003 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

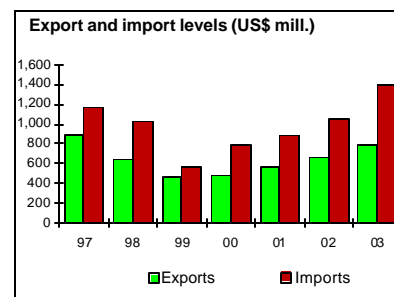
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices (% change)				
Consumer prices	..	788.5	5.3	11.7
Implicit GDP deflator	..	860.5	10.0	13.9
Government finance (% of GDP, includes current grants)				
Current revenue	..	26.8	29.5	31.1
Current budget balance	..	-4.1	0.7	1.4
Overall surplus/deficit	..	-9.0	-1.8	0.4



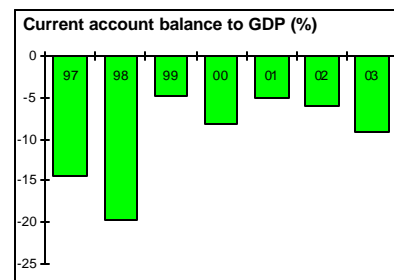
TRADE

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total exports (fob)	..	451	666	790
Live animals and animal products	..	26	39	29
Vegetable products	..	22	106	120
Manufactures	..	100	135	197
Total imports (cif)	..	631	1,052	1,403
Food	..	39	44	82
Fuel and enerav	..	279	218	233
Capital goods	..	33	147	214
Export price index (1995=100)	91	93
Import price index (1995=100)	103	109
Terms of trade (1995=100)	88	85



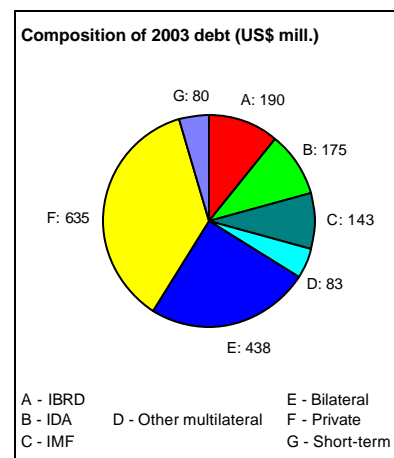
BALANCE of PAYMENTS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Exports of goods and services	..	501	870	1,054
Imports of goods and services	..	705	1,283	1,720
Resource balance	..	-204	-414	-666
Net income	..	0	159	323
Net current transfers	..	22	155	162
Current account balance	..	-182	-99	-181
Financing items (net)	..	169	121	214
Changes in net reserves	..	13	-22	-33
Memo:				
Reserves including gold (US\$ millions)	269	302
Conversion rate (DEC, local/US\$)	..	0.8	13.6	13.9



EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	..	278	1,641	1,744
IBRD	..	28	186	190
IDA	..	0	145	175
Total debt service	..	2	230	142
IBRD	..	0	17	18
IDA	..	0	1	1
Composition of net resource flows				
Official grants	..	0	155	162
Official creditors	..	65	-5	-16
Private creditors	..	0	-35	24
Foreian direct investment	..	14	117	50
Portfolio equity	..	0	-27	-20
World Bank program				
Commitments	..	86	30	63
Disbursements	..	29	26	18
Principal repayments	..	0	9	11
Net flows	..	29	17	7
Interest payments	..	0	9	8
Net transfers	..	28	8	-1



Moldova: Selected Indicators* of IDA Portfolio Performance and Management

As of 10/18/2004

Indicator	2002	2003	2004	2005
Portfolio Assessment				
Number of Projects Under Implementation ^a	8	11	13	12
Average Implementation Period (years) ^b	2.8	2.8	2.8	2.8
Percent of Problem Projects by Number ^{a, c}	0.0	9.1	7.7	8.3
Percent of Problem Projects by Amount ^{a, c}	0.0	21.1	6.7	7.4
Percent of Projects at Risk by Number ^{a, d}	25.0	9.1	7.7	8.3
Percent of Projects at Risk by Amount ^{a, d}	21.1	21.1	6.7	7.4
Disbursement Ratio (%) ^e	22.6	35.8	31.6	3.6
Portfolio Management				
CPPR during the year (yes/no)	yes	no	yes	
Supervision Resources (total US\$)	856	899	911	
Average Supervision (US\$/project)	71	82	70	

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	11	6
Proj Eval by OED by Amt (US\$ millions)	327.1	111.1
% of OED Projects Rated U or HU by Number	36.4	33.3
% of OED Projects Rated U or HU by Amt	24.6	18.4

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Moldova: World Bank Group Program Summary

Proposed IDA Base-Case Lending Program ^{a/}

As of 10/18/2004

Proposed IDA Base-Case Lending Program ^a

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards ^b (H/M/L)</i>	<i>Implementation Risks ^b (H/M/L)</i>
2005	PUB FIN MGMT TA	10.0	H	H
	Result	10.0		
2006	RURAL INVESTMENT SERVICES 2	15.0	H	H
	RURAL EDUCATION	10.0	M	M
	COMPETITIVENESS	5.0	H	H
	Result	30.0		
2007	SOCIAL ASSISTANCE PROJECT	10.0	H	H
	PRIMARY HEALTH CARE PROJECT	10.0	M	M
	HAZARD MITIGATION IN RURAL AREAS	10.0	M	H
	Result	30.0		
2008	LOC GOVT AND COMMUNITY INFRASTRUCTU	10.0	H	H
	WATER AND SANITATION PROJECT	10.0	M	H
	Result	20.0		
Overall Result		90.0		

^{a/} This table presents the proposed program for the next four fiscal years

^{b/} For each project, indicate whether the strategic rewards and implementation risks are expected to be moderate (M), high (H), or low (L)

Moldova: IFC and MIGA Program, FY 2001-2005

As of 10/25/2004

	2001	2002	2003	2004	2005
IFC approvals (US\$m)	30.3	1.5	0.0	10.5	0.0
Sector (%)					
Finance & Insurance	16.5	100.0		100.0	
Information	1.0				
Utilities	82.5				
Total	100.0	100.0	0.0	100.0	0.0
Investment instrument(%)					
Loans	99.0			100.0	
Equity	0.4	100.0			
Quasi-Equity	0.6				
Other	0.0				
Total	100.0	100.0	0.0	100.0	0.0
MIGA guarantees (US\$m)	63.8	61.1	61.1	62.0	

Moldova: Summary of Non-Lending Services
As of 10/18/2004

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions				
ADM/PROP RIGHTS REF	2003	109	G,D,B	KG, PD
CFAA	2003	98	G,B	KG, PS
CPAR	2003	131	G,B	KG, PS
WATER SECTOR NOTE	2003	22	G,B	KG, PS
POPS EA (GEF)	2003	31	G,B	KG, PS
BUS ENV TA	2003	69	G,B, D,PD	KG, PS, PD
YOUTH INCLUSION TA	2003	20	G,B	KG, PS
ICA (MOLDOVA-REGION)	2004	110	G,B, D,PD	KG, PS, PD
POVERTY ASSESSMENT	2004	290	G,B, D,PD	KG, PS
TRADE DIAGN STUDY	2004	227	G,D,B	KG, PS
SOCIAL ASST	2004	94	G,B	KG, PS
SOCIAL PROT DIALOGUE	ongoing	200	G,B	KG, PS, PD
PSIA	2004	145	G,B	KG, PS
LEG & JUD SECT ASSMT	2004	100	G,B	KG, PS
ROSC ACCT & AUDIT	2004	50	G,B	KG, PS
CICCG: MOLDOVA CNTRY ASSMT	2004	80	G,B	KG, PS
Underway				
GROWTH STUDY (CEM)	2005	242	G,B, D,PD	KG, PS, PD
EDUCATION NOTE	2005	100	G,B, PD	KG, PS
AGRICULTURE NOTE	2005	120	G,B	KG, PS, PD
RECONCILIATION THROUGH EDUCATIOI	2006	57	G,B	KG, PS
PSD/FSD TA/DIALOG	ongoing	260	G,B	KG, PS, PD
POLICY NOTES	ongoing	210	G,B, D,PD	KG, PS, PD
CFAA FOLLOW UP	ongoing	139	G,B, D	KG, PS, PD
CPAR FOLLOW UP	ongoing	168	G,B, D	KG, PS, PD
COMO-MACRO MONITORING	ongoing	424	G,B	KG, PS, PD
LOCAL GOV/COMMUNITY DEVELOPMEN	2005	150	G,B, D,PD	KG, PS, PD
PUBLIC PROCUREMENT (IDF)	2006	24	G,B	KG, PS
Planned				
CAS UPDATE	2006	70	G,B, D,PD	KG, PS, PD
POVERTY ASSESSMENT UPDATE	2006	60	G,B, D,PD	KG, PS, PD
PRSP UPDATE	2006	50	G,B, D,PD	KG, PS, PD
DISASTER MANAGEMENT NOTE	2006	150	G,B	KG, PS
SOCIAL ASSISTANCE NOTE	2006	100	G,B	KG, PS
FSAP FOLLOW UP (TA)	2006	70	G,B	KG, PS
CFAA UPDATE	2006	50	G,B	KG, PS
CPAR UPDATE	2007	50	G,B	KG, PS
PRSP	2007	200	G,B, D,PD	KG, PS, PD
HOUSING REHABILITATION	2007	80	G,B	KG, PS
FSD/PSD	2007	100	G,B, D	KG, PS, PD
PER	2007	150	G,B, D,PD	KG, PS, PD
HEALTH NOTE	2007	100	G,B	KG, PS, PD
LEGAL EMPOWERMENT TA (JSDF)	2008	36	G,B	KG, PS
CAS	2008	50	G,B, D,PD	KG, PS, PD
POVERTY ASSMT UPDATE	2008	150	G,B, D,PD	KG, PS, PD
PRSP UPDATE	2008	50	G,B, D,PD	KG, PS, PD

a/ Government, donor, Bank, public dissemination.

b/ Knowledge generation, public debate, problem-solving.

Moldova: Social Indicators

	Latest single year			Same region/income group	
	1970-75	1970-75	1994-02	Europe & Central Asia	Low-income
POPULATION					
Total population, mid-year (millions)	3.8	4.2	4.2	0.0	0.0
Growth rate (% annual average for period)	1.3	0.9	-0.2	0.2	2.0
Urban population (% of population)	35.8	44.0	41.3	65.4	31.9
Total fertility rate (births per woman)	2.5	2.8	1.4	1.6	3.6
POVERTY (% of Population)					
National headcount index	48.0	..	..
Urban headcount index
Rural headcount index	62.0	..	..
INCOME					
GNI per capita (US\$)	590	2,010	410
Consumer price index (1995=100)	267.0	186.9	140
Food price index (1995=100)	199.0	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	34.0	..	..
Lowest quintile (% of income or consumption)	6.8	..	..
Highest quintile (% of income or consumption)	46.8	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	3.6	4.1	1.2
Education (% of GDP)	5.6	4.4	3.4
Social security and welfare (% of GDP)	7.8	8.8	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	95.0	..	..
Male
Female
Access to an improved water source					
<i>(% of population)</i>					
Total	92	90	76
Urban	88
Rural	70
Immunization rate					
<i>(% under 12 months)</i>					
Measles	99.1	93	57
DPT	93	57
Child malnutrition (% under 5 years)
Life expectancy at birth (years)					
Total	..	66	68	69	59
Male	..	63	65	64	58
Female	..	69	72	74	60
Mortality					
Infant (per 1,000 live births)	..	31	15	20	76
Under 5 (per 1,000 live births)	18	25	115
Adult (15-59)					
Male (per 1,000 population)	321	289	340	317	310
Female (per 1,000 population)	178	173	161	137	259
Maternal (per 100,000 live births)	28	58.0	..
Births attended by skilled health staff (%)	99	..	..

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data
Source: 2002 World Development Indicators CD-ROM, World Bank.

Moldova: Key Economic Indicators

Indicator	Actual			Estimate		Projected			
	1999	2000	2001	2002	2003	2004	2005	2006	2007
National accounts (as % of GDP)									
Gross domestic producta	100	100	100	100	100	100	100	100	100
Agriculture	28	29	26	24	23	22	21	21	21
Industry	23	22	24	23	25	24	24	25	25
Services	49	49	50	53	53	54	54	54	54
Total Consumption	94	101	104	103	112	111	111	111	111
Gross domestic fixed inv	18	15	14	16	17	15	14	13	13
Government investmen	4	2	2	3	1	2	2	2	2
Private investment	15	13	11	14	16	13	12	11	11
Exports (GNFS)b	53	50	50	52	54	50	48	50	52
Imports (GNFS)	69	75	74	77	88	81	79	80	81
Gross domestic savings	6	-1	-4	-3	-12	-11	-11	-11	-11
Gross national savingsc	16	16	15	16	12	13	12	13	13
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	1171	1288	1481	1662	1958	2594	2918	3060	3155
GNI per capita (US\$, At	410	390	400	470	590	700	810	920	970
Real annual growth rates (% , calculated from 1995 prices)									
Gross domestic produc	-3.4	2.1	6.1	7.8	6.3	7.0	5.0	4.0	3.0
Gross Domestic Incom	-6.2	1.1	6.3	6.9	5.4	4.4	5.0	4.7	4.3
Real annual per capita growth rates (% , calculated from 1995 prices)									
Gross domestic produc	-3.2	2.3	6.3	8.0	6.5	6.2	5.5	4.7	3.2
Total consumption	-12.4	9.8	10.4	7.2	19.8	6.5	6.8	5.0	3.6
Private consumption	-10.8	10.8	9.8	5.4	19.7	6.5	7.0	4.8	3.3
Balance of Payments (US\$ millions)									
Exports (GNFS)b	615	644	735	870	1054	1196	1312	1419	1519
Merchandise FOB	474	477	567	660	804	904	996	1080	1159
Imports (GNFS)b	813	971	1088	1283	1720	1961	2144	2279	2392
Merchandise FOB	610	768	880	1038	1430	1658	1817	1931	2028
Resource balance	-198	-327	-353	-414	-666	-766	-833	-860	-873
Net current transfers	87	157	160	155	162	176	193	212	235
Current account balance	-55	-106	-72	-99	-181	-173	-183	-175	-168
Net private foreign dire	40	143	149	117	50	48	76	90	93
Long-term loans (net)	90	105	2	-40	7	1	-16	19	90
Official	87	24	-2	-5	-16	-21	10	29	37
Private	3	81	4	-35	23	21	-25	-10	53
Other capital (net, incl.	-27	-95	-68	44	157	166	155	110	25
Change in reservesd	-49	-47	-10	-22	-33	-41	-32	-44	-40
<i>Memorandum items</i>									
Resource balance (% of t	-16.9	-25.4	-23.9	-24.9	-33.9	-31.7	-30.7	-30.2	-29.7
Real annual growth rates (YR95 prices)									
Merchandise exports (F	-14.5	6.6	30.5	3.9	15.5	10.0	8.4	6.7	5.6
Primary	..	..	..	..	..	..	..	..	..
Manufactures	-8.5	-10.8	5.5	2.8	62.1	0.0	0.0	0.0	0.0
Merchandise imports (C	-49.1	29.4	21.4	9.6	36.2	11.1	7.8	5.3	4.9

(Continued)

Moldova: Key Economic Indicators
(continued)

Indicator	Actual			Estimate			Projected		
	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public finance (as % of GDP at market prices)^e									
Current revenues	30.4	30.7	29.1	29.5	31.1	29.7	29.9	30.2	30.5
Current expenditures	33.0	31.4	27.4	28.8	29.7	27.9	28.5	28.3	28.6
Current account surplus (+) or deficit	-2.6	-0.7	1.7	0.7	1.4	1.9	1.5	1.8	1.9
Capital expenditure	3.5	2.2	2.0	2.4	1.0	1.6	1.7	1.8	1.9
Foreign financing	3.5	1.0	-2.3	0.6	-1.7	-1.3	-1.1	-0.7	0.4
Monetary indicators									
M2/GDP	20.3	21.9	25.2	28.9	31.2	32.5	33.3	33.9	34.5
Growth of M2 (%)	42.6	40.3	36.3	36.0	30.7	23.8	19.8	13.1	10.5
Private sector credit growth / total credit growth (%)	62.9	90.9	79.8	96.0	119.8	87.1	92.0	100.8	107.3
Price indices(YR95 =100)									
Merchandise export price index	74.0	69.9	63.9	71.9	73.9	76.8	78.1	79.4	80.7
Merchandise import price index	93.4	100.8	92.3	100.4	98.3	104.6	106.3	107.2	107.3
Merchandise terms of trade index	79.2	69.4	69.2	71.6	75.1	73.5	73.4	74.1	75.2
Real exchange rate (LCU/US\$) ^f	102.1	112.1	109.4	109.9	105.4	94.9	90.1	90.1	90.1
Real interest rates									
Consumer price index (% change)	39.3	31.3	9.8	5.3	11.7	10.8	10.3	6.4	4.7
GDP deflator (% change)	39.8	27.3	11.9	10.0	13.9	11.9	11.4	6.9	5.5

- a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Consolidated central government.
f. "LCU" denotes "local currency units."

Moldova: Key Exposure Indicators

Indicator	Actual			Estimate			Projected		
	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total debt outstanding and disbursed (TDO) (US\$m) ^a	1021	1231	1225	1329	1440	1344	1306	1299	1368
Net disbursements (US\$m) ^a	93	92	1	-46	-14	-21	-39	-6	68
Total debt service (TDS) (US\$m) ^a	211	138	159	230	142	293	245	238	176
Debt and debt service indicators (%)									
TDO/XGS ^b	144.7	159.7	132.2	119.8	99.5	72.6	64.8	60.3	60.0
TDO/GDP	87.2	95.5	82.8	80.0	73.3	55.7	48.1	45.6	46.6
TDS/XGS	29.9	17.9	17.2	20.7	9.8	15.9	12.1	11.0	7.7
Concessional/TDO	22.8	16.7	16.9	20.2	21.3	23.9	26.7	29.5	30.5
IBRD exposure indicators (%)									
IBRD DS/public DS	8.6	15.7	14.2	12.9	20.2	16.6	16.7	18.3	24.3
Preferred creditor DS/public DS (%) ^c	57.6	71.6	51.7	50.8	79.8	56.3	47.2	48.2	61.9
IBRD DS/XGS	2.1	2.1	1.8	1.5	1.2	1.3	1.1	1.1	1.0
IBRD TDO (US\$m) ^d	199	191	181	186	190	173	156	139	122
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) ^d	77	103	113	145	175	190	216	248	280
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

Moldova: Operations Portfolio (IBRD/IDA and Grants)

As of 10/18/2004

Closed Projects 13

IBRD/IDA *

Total Disbursed (Active)	46.4
of which has been repaid	0.0
Total Disbursed (Closed)	357.2
of which has been repaid	48.6
Total Disbursed (Active + Closed)	403.6
of which has been repaid	48.6
Total Undisbursed (Active)	104.8
Total Undisbursed (Closed)	0.2
Total Undisbursed (Active + Closed)	105.0

Active Projects

Project ID	Project Name ¹	Last PSR Supervision Rating			Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements ^{a/}	
		DQ	IP	FY	IBRD	IDA GRANT	Cancel.	Undisb.	Orig. Frm	Rev'd
P075995	AG POLLUTION CONTROL	S	S	2004		5.0		4.5	-0.3	
P074122	AIDS CONTROL	S	S	2003		5.5		5.7	0.8	
P040558	ENERGY 2	S	S	2004		35.0		36.2	2.7	
P035771	FIRST CADASTRE	S	S	1998		15.9		2.1	2.2	0.7
P051174	HEALTH INVST FUND	S	S	2001		10.0		3.4	1.1	0.5
P035811	PSD 2	S	S	1997		9.0		1.3	1.4	
P060434	RURAL INV & SERVS (APL	S	S	2002		15.5		5.6	-6.5	-0.4
P079314	SIF 2	S	S	2004		20.0		20.3	0.3	
P051173	SOC PROT	U	U	1999		11.1		7.6	6.9	
P073626	TRADE & TRANS FACIL IN	S	S	2003		7.2		7.1	-0.6	
P074469	WS & SAN	S	S	2003		12.0		12.3	-0.6	
Overall Result						141.2	5.0	106.2	7.5	0.8

CAS Annex B8 (IFC) for Moldova
Statement of IFC's
Held and Disbursed Portfolio
As of 09/30/04
(Amount in US Dollar Millions)

FY Approval	Institution Name	Held				Disbursed			
		Loan	Equity	QL+QE	Partic	Loan	Equity	QL+QE	Partic
2000/2004	FinComBank	2.8	0.0	0.0	0.0	2.8	0.0	0.0	0.0
1997	INCON	5.3	0	0.0	0.0	5.3	0	0.0	0.0
2000	MEC Moldova	0.0	0.1	0.9	0.0	0.0	0.1	0.9	0.0
2000/2004	Moldindconbank	5.7	0.0	0.0	0.0	5.7	0.0	0.0	0.0
2001	UF Moldova	25.0	0.0	0.0	0.0	20.0	0.0	0.0	0.0
2001/2004	Victoriabank	7.3	0.0	0.00	0.0	7.3	0.0	0.0	0.0
1999/2000/2001	VoxTel	5.3	0.0	6.6	13.2	5.3	0.0	6.6	13.2
Total Portfolio:		51.3	0.1	7.5	13.2	46.3	0.1	7.5	13.2

Source: MIS-IFC

Approvals Pending Commitment
(Amount in US Dollar Millions)

FY Approval	Institution Name	Loan IFC Approv	Equity IFC Approv	QL+QE IFC Approv	GT IFC Approv	RM IFC Approv	Total IFC Approv	Total Partic Approv
Total Pending		0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: MIS-IFC

Note:

* QL+QE includes both Quasi-equity (Loan type) and Quasi-equity (Equity type) products.

CAS PROGRAM MATRIX

Annex B9

Page 1 of 9

Long-Term Development Agenda for Moldova	Outcome Influenced by the CAS program during the 4 year period			IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
I. Competitive Market Environment, Stability and Pro-poor Growth					
Maintain stable macroeconomic Framework	High Public Sector Debt	Debt strategy (including Paris Club)		Lending – Ongoing Social Protection Management Project cofinanced by DFID	Chapter 6.1
Reduced NPV of public and publicly guaranteed debt (53% of GDP in 2003)	Public debt service absorbs 45% of central government revenues in 2003	Lower public debt service (45% of central government revenues in 2003)	Annual fiscal deficits aligned with available non-inflationary financing; Limit government subsidies to productive sector	Lending – Proposed Social Assistance (Base Case FY07); <i>Adjustment Operation (High Case);</i>	Chapter 6.3
Inflation the single digits (12% annual average in 2003)	High risk of fiscal imbalance developing; external arrears accumulating	Government current on budgetary obligations		AAA- Proposed Country Economic Memorandum (Base Case FY05); Social Assistance Note (Base Case FY05); Local Government/Community Development (Base Case FY06)	Chapter 6.3
Financially viable and stable pension system	Pension law not fully implemented	<i>Eliminate pension privileges</i>	By year 2005 create individual accounts for at least 50 percent of pension fund members	Social Assistance Note (Base Case FY05); Local Government/Community Development (Base Case FY06)	Chapter 6.15
	High redistribution from industrial to agricultural sector, pension benefits not linked to contributions	<i>Reduce redistribution of pension contributions from industrial to agricultural sector from 85 to 60 percent of total</i>	Program to finish implementation of general pension system law and reduce pension privileges	Public Expenditure Review (Base Case FY07) Macro Monitoring (Base Case continuous)	
		<i>100 percent of pension fund members with individual accounts</i>	Adopt strategy for reforming pensions in agricultural sector	Pension Policy Dialogue in cooperation with EU FSP and IMF (Base Case continuous);	
Create conditions for increased domestic and foreign investment and	Low levels of domestic and foreign investment; High costs of doing business,	Reduce the cost of doing business	Periodic business surveys to	Lending - Ongoing PSD II project; Energy II project;	Chapter 6.4

CAS PROGRAM MATRIX

Long-Term Development Agenda for Moldova		Outcome Influenced by the CAS program during the 4 year period		IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
<p>productive reallocation of resources in the economy</p> <p>??Sustained rate of economic growth averaging 5% per annum to meet poverty MDGs by 2010</p> <p>??Increase share of private sector in GDP from 50 % by 2002 to at least 70% 2015.</p> <p>??Increase domestic fixed capital formation from 17% of GDP in 2003 to 22% in 2008</p> <p>??Increase stock of foreign direct investment per capita from \$240 in 2003 to \$430 in 2008</p> <p>??Net increase in number of enterprises to reach 9% p.a. by 2008</p> <p>??Agricultural GDP growth increases from a 1999-2002 average of 4.5% to 5.0%</p>	<p>as in:</p> <p>?? Establishing and operating a business (In 2002, licensing cost = \$683, inspection costs = \$1893 and number of inspections per year/firm = 20</p> <p>?? Inefficient and costly customs and trade regulations (Clearance time at Chisinau inland terminal = 500 min);</p> <p>Quality of infrastructure services lowers competitiveness</p> <p>Extremely low levels of internet connectivity (1.2% internet penetration rate)</p> <p>Poor corporate governance. State interference in privatized and public companies</p> <p>Sound but small banking sector</p>	<p>?? Customs clearance time at Chisinau inland clearance terminal reduced to 25 minutes</p> <p>?? Licensing cost reduced to 20% of per capita income</p> <p>?? Number of inspections reduced to 8 per year/per firm.</p> <p>Arrest deterioration of infrastructure</p> <p>?? Roads: system of road user charges in place;</p> <p>?? Energy: Increased availability and reduced specific heat consumption in pilot communities and public buildings</p> <p>?? Telecommunications: greater use of internet, e-commerce and other communications infrastructure;</p> <p>Privatization outcomes meet transparency criteria as verified by external observers</p>	<p>measure reduction in business costs to SE European standards: Customs clearance time – 70 minutes by December 2005</p> <p>Cost of licensing and permits - \$550 by 2005</p> <p>Number of inspections – no more than 12 per year/per firm by 2005</p> <p>??Reduce vehicle operating costs by implementing cost-recovery (user charges) financing for road maintenance</p> <p>??Introduce SME and community participation in road maintenance;</p> <p>??Develop legal and regulatory framework for e-Commerce</p> <p>?? Increase the transparency of privatization process in line with international best practices.</p> <p>?? Implement the Privatization Program</p> <p>?? Implement FSAP Update Recommendations</p>	<p>TTFSE project; RISP; Cadastre I; Lending – Proposed Competitiveness Project (Base Case FY05) Agricultural Policy Note (Base Case FY05) RISP II (Base Case – FY06) Hazard Mitigation in Rural Areas (Base Case – FY07) <i>Adjustment Operation (High Case)</i></p> <p><i>PSD/FSD Project (High Case)</i> <i>TTFSE II (High Case)</i> <i>Road Maintenance and Rehabilitation (High Case)</i> <i>Cadastre II (High Case)</i> <i>Farm re-structuring (High Case)</i></p> <p>AAA- proposed FSAP Follow-up TA (Base Case FY05) Disaster Management Note (Base Case FY06) FSAP Update Assessment (Base Case FY06) Housing Rehabilitation Note (Base Case FY07) Cost of Doing Business</p>	

CAS PROGRAM MATRIX

Long-Term Development Agenda for Moldova		Outcome Influenced by the CAS program during the 4 year period		IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
	and poorly developed capital market. Weak AML/CFT regime.	Follow-up financial sector review shows FSAP main recommendations have been implemented.	?? Improve system of creditor rights and movable collateral; ?? Eliminate tax disincentives to leasing;	Surveys (Base Case – annual) <i>Regulatory review note (High Case)</i> <i>Development of Regional Energy Trade (High Case)</i>	
	Limited access by the poor and other groups to credit.	Improved access to credit in rural areas. Increase lending to agricultural and food processing by 50%.	Increase share of micro-credit by banks and others.		
	High vulnerability of agricultural production to inclement weather (see poverty in rural areas)	Initiate implementation of strategy to help farmers mitigate against weather-related risk and reduce growth instability.	The Government adopts a hazard mitigation strategy and action plan, in coordination with donors, by the end of 2007.		
	Poor access to business and agricultural technology and information in rural areas	Provide outreach services to 200,000 registered farmers.	A network of over 30 technology and information service providers is established and fully operational throughout the CAS period		
		Encourage formation of voluntary production cooperative in agriculture.	Legal framework for market friendly land consolidation in place.		
II. Minimize Social and Environmental Risks, Build Human Capital and Promote Social Inclusion					
Reduce poverty rates among vulnerable and excluded groups (e.g. children, youth, elderly) residents from rural areas	Poorly targeted social assistance benefits	Percentage of social assistance that is targeted to the poor to increase from 60 to 85 percent.	Adoption of a strategy for improved targeting of social assistance benefits	Lending - Ongoing Social Protection Management Project (co-financed by DFID);	Chapter 6.16

CAS PROGRAM MATRIX

Long-Term Development Agenda for Moldova		Outcome Influenced by the CAS program during the 4 year period		IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
and small towns, (In 2002 poverty rates for rural population was 52% and small towns was 63%)				SIF 2 (with SIDA and Soros co-financing)	
Empower youth, and especially young adults (18-30) as assets for poverty reduction	Youth (14-30 years of age) lack access to resources and skill as well as safe spaces/ activities that could help reduce/prevent risky behaviors	Implementation of national youth strategy in selected sites and preparation of regional cross-sectoral youth strategies	Implementation of national youth strategy in selected sites have regional youth strategies	<p>Lending – Proposed Social Assistance project (Base Case FY07); <i>Development Policy Lending (High Case)</i></p> <p>AAA -Proposed Social Assistance note (Base Case FY06)</p>	Chapter 6.18
Reduce unemployment levels among youth and increase the level of youth participation in self-employment	Public policies and programs remain segmented and youth fall between the cracks	<p>320 formal and viable youth-owned enterprises are created</p> <p>Satisfactory results in 70% of selected sites on vulnerable unemployed youth (16-30) finding wage employment in participating local businesses</p> <p>Satisfactory results in 60% of sites on reduction of risky behaviors (alcohol/drug abuse) among targeted youth</p>	<p>160 formal and viable youth-owned enterprises are created</p> <p>Satisfactory results in 50% of selected sites on wage employment for unemployed youth</p> <p>Satisfactory results in 40% of sites on reduction of risky behaviors</p>	<p>Poverty Assessment Update (Base Case FY06 and FY08))</p> <p><i>Child Welfare Note (High Case)</i></p>	Chapter 6.17
	Social Care Services: Over-reliance on residential care institutions Fragmented administrative, management and financing responsibilities	<p>?? About 50 alternative social care services created and delivered by local governments in cooperation with the NGOs;</p> <p>?? New framework for financing social care services adopted.</p>	Implement policy lessons learned from the SIF experience		

CAS PROGRAM MATRIX

Long-Term Development Agenda for Moldova	Outcome Influenced by the CAS program during the 4 year period			IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
<p>Improve education and health indicators in line with MDGs: Universal access to compulsory schooling (primary and gymnasium Net Enrollment Rates to 100% by 2015). Improvements in quality of schooling as measured by student performance in national assessments and international studies</p> <p>Reduced disparities (rural-urban, poor-non-poor) at all levels of education</p> <p>Increase pre-school attendance among rural children</p>	<p>Education:</p> <p>?? Rural and poor children drop out before completing compulsory schooling</p> <p>?? Rural and poor substantially less likely to continue to upper secondary and higher levels – which are correlated with lower poverty</p> <p>?? Quality of compulsory education – as measured by student performance is still inadequate and worse in rural areas</p>	<p>?? NER in rural areas in primary increased from 96% to 98%, in gymnasium from 92% to 95%, and in upper secondary from 28% to 35%.</p> <p>?? Gap in performance between rural and urban students in grade 6 survey of student performance reduced by 50%.</p>	<p>?? Adopt strategy to improve the quality of rural education</p> <p>?? Adopt a strategy to reduce drop out from compulsory schooling and continuation for poor and rural students</p> <p>?? Establishment of a framework for increasing accountability among education providers and greater community oversight</p> <p>?? Review of plans for revision to general and vocational programs to increase relevance</p> <p>?? Strategy to increase IT literacy</p>	<p>Lending - Ongoing Health Investment Fund Project co-financed by Dutch government; TB/AIDS Project;</p> <p>Lending – Proposed Rural Education Project (Base Case FY06) Primary Health Care Project (Base Case FY07) Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)</p> <p>AAA - Proposed Education Note (Base Case FY05); Reconciliation through Education (Base Case FY05) Health Note (Base Case – FY07)</p>	<p>Chapter 6.13</p> <p>Chapter 6.14</p>
<p>Infant and mother mortality reduced (16.4 and 43.1 per thousand in 2001)</p> <p>Reduction in TB and AIDS incidence (85 and 0.2 per 100 thousand in 2001)</p>	<p>Health:</p> <p>?? Unsustainable health financing and inefficient allocation of resources</p> <p>?? Low quality of health services.</p> <p>?? Low managerial capacity in the health system</p>	<p>?? Further reduction of maternal, infant and under-5 mortality rates</p> <p>?? Reduction in TB incidence and mortality</p> <p>?? Stabilization of HIV incidence and mortality from AIDS</p> <p>?? Increase in percentage of population covered by essential health interventions, including HIV/AIDS</p>	<p>?? Hospital restructuring plan implemented</p> <p>?? Allocation to primary health care is maintained at no less than 35% of total public health expenditure</p> <p>?? Basic package of services for vulnerable groups fully covered from public sources</p> <p>?? Sustainable government funding of priority national programs, including TB and</p>		

CAS PROGRAM MATRIX

Long-Term Development Agenda for Moldova		Outcome Influenced by the CAS program during the 4 year period		IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
		prevention services	HIV/AIDS control ?? Norms and Standards for social care services developed.		
<p>Improve quality of water and sanitation services and reduce environmental degradation and health hazards</p> <p>By 2015, increase urban population served with piped water supply from 70% to 85% and sanitation from 55% to 75%; By 2015, increase rural population served with water supply from 50% to 55% and sanitation from 35% to 70%.</p> <p>Reduce incidence of drinking water and air pollution borne diseases (number of incidence per 10.000)</p>	<p>Intermittent supply of water services</p> <p>Water and sanitation system not financially sustainable: ///Inadequate collection rates from users ///Tariffs not covering operating and maintenance costs</p> <p>Results in low coverage of population for drinking water supply and sewage services in urban and rural areas.</p> <p>Groundwater contamination creating human health problems.</p> <p>Inoperative disinfection equipment. In rural areas, contamination of unprotected shallow wells close to latrines and animals</p>	<p>Average 16 hours of supply per day in pilot areas</p> <p>Collection ratio to exceed 80%</p> <p>Operational and maintenance costs (including depreciation) covered by operating revenues.</p> <p>Use regular water quality monitoring and reporting from Ministry of Health for benchmarking.</p>	<p>Average 12 hours of supply per day in pilot areas</p> <p>Collection ratio to exceed 65%</p> <p>Cash operational and maintenance of water utilities covered by cash operating revenues.</p> <p>Water tariffs adjusted automatically for annual inflation.</p> <p>Establish regular water quality monitoring and reporting from the Ministry of Health</p> <p>Hygiene campaign for rural areas.</p>	<p>Lending - Ongoing Pilot Water Supply and Sanitation Project GEF Agriculture Pollution Control; PCF Soil Conservation Project; GEF Bio-diversity Conservation in lower Dniester Delta</p> <p>Lending - Proposed Environmental Infrastructure and Efficiency Improvement Project (GEF – Base Case FY05) GEF Sustainable POPs Stockpiles Management (Base Case FY06); GEF MSP Biomass (Base Case FY05); GEF MSP Landscape Protection and Biodiversity Conservation in the Middle Prut Catchment (Base Case FY06); CDCF Energy Conservation and Emissions Reduction</p>	Chapter 6.12

CAS PROGRAM MATRIX

Long-Term Development Agenda for Moldova		Outcome Influenced by the CAS program during the 4 year period		IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
<p>Repackaging and safe storage of 100% of obsolete POPs (currently estimated 1,712 tons of pesticides and about 22,000 tons of PCBs);</p> <p>Increase forest cover at the level of 15 % of the territory (by 2020);</p> <p>Increase the surface of protected areas by 15,000 ha (by 2015), and strengthen their institutional capacity</p> <p>Reduce soil degradation by: (a) afforestation of 133,000 of degraded agricultural lands; (b) landslides stabilization on 38 thousand ha; and soil improvements on about 4,400 ha.</p> <p>Increase usage of biowaste as renewable energy resources</p>	<p>Low afforestation rate of the territory and poor protected areas management.</p> <p>Poor land management practices reduce soil fertility, intensify erosion and landslides.</p> <p>Insufficient and unreliable energy supply in rural areas, results in intensive use of dirty energy sources;</p>	<p>Volumes of obsolete POPs repackaged and stored in a safe manner 35% of total stock of pesticides; and agreed % of obsolete PCBs.</p> <p>Create local ecological network in Prut River Basin with 200 km of forest belts; increase afforested degraded lands with local communities participation (1,000 ha)</p> <p>Increased reliance on heating supply based on biomass resources (up to 40 public buildings, using 30.000 tons of biomass)</p>	<p>Adopted new laws and regulations on POPs Management; created analytical capacity; strengthened institutions; and, raised public awareness</p> <p>Strengthened PAs institutional capacity</p> <p>Adopted new laws and regulation on best agricultural practices, trained farmers and raised public awareness</p> <p>Emissions Reduction Purchase Agreement (ERPA) within CDCF Energy Conservation project signed on about 300.000 tons of CO2</p> <p>Pilot utilization of biomass from agro waste as energy source;</p>	<p>(Carbon Financed Project) (Base Case FY06)</p> <p>Water Supply and Sanitation Project (Base Case FY07);</p> <p>AAA – proposed <i>Forestry Note (High Case)</i></p>	
III. Combating Corruption and Improving Public Sector Governance					
<p>Increase capacity of public sector to develop and implement public policies.</p>	<p>Highly politicized public administration, uncertain career prospects and low salaries</p>	<p><i>Merit based competitive selection of civil servants (100% of civil servants hires below deputy minister based on</i></p>	<p>New Civil Service Law (and secondary legislation) with quarterly reports on recruitment results</p>	<p>Lending - Proposed Local government and community infrastructure LIL (Base Case FY08);</p>	<p>Chapter 6.3</p>

CAS PROGRAM MATRIX

Long-Term Development Agenda for Moldova		Outcome Influenced by the CAS program during the 4 year period		IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
	<p>No central government capacity for managing public administration reform</p> <p>Local government administrations lack skills for public service management, strategic planning, financial management, procurement and budget execution</p> <p>Weak local government own revenues capacity</p> <p>Erratic revenue transfers from central to local governments</p>	<p><i>merit)</i></p> <p><i>National Civil Service Training System reorganized with adequate resources</i></p> <p>Local government budgets better reflect developmental and public service priorities and capture spending commitments</p> <p>Clear assignment of responsibilities and predictable revenue stream through rule based transfer system and increased revenue generation at the local level</p>	<p>Curriculum of Academy Public Administration changed to reflect needs identified in quarterly reports</p> <p>Annual reports of Rayon Administrations</p> <p>Public Administration reform council and Public Administration/Civil Service Management Unit created</p> <p>Law on valuation comparable to international best practice</p> <p>New property taxation concept introduced to stakeholders including local governments and civil society</p>	<p><i>Adjustment Operation (High Case)</i></p> <p><i>Cadastre II (High Case)</i></p> <p>AAA – Proposed</p> <p><i>Fiscal decentralization (High Case)</i></p> <p><i>Dialogue on civil service/public administration reform (High Case)</i></p>	
<p>Lower public perception of corruption in government by increasing transparency and accountability in the management of public monies</p>	<p>Public procurement system open to abuse and corruption</p> <p>Feeble external oversight and underdeveloped internal audits and controls</p> <p>Low allocative and technical efficiency of public budget</p>	<p><i>Reduce single source procurement to 20% of the total number of contracts and to 15% of the total value of contracts (excluding utilities).</i></p> <p>Annual budgets drawn up on the basis of MTEF, reflecting the priorities of the Government as</p>	<p>Public reporting on procurement</p> <p>System in place to make information available to public on state budget cash allocations on a continuous basis</p> <p>Continuous improvements in annual MTEF by extending coverage use of indicators and</p>	<p>Lending – Proposed</p> <p>Public financial management project (Base Case FY05)</p> <p>AAA – Proposed</p> <p>Public Expenditure Review (Base Case FY 07)</p> <p><i>Governance update note (High Case)</i></p>	<p>Chapter 6.3</p>

CAS PROGRAM MATRIX

Long-Term Development Agenda for Moldova		Outcome Influenced by the CAS program during the 4 year period		IDA Assistance	EGPRSP
Strategic and Longer Term/ Higher Order Country Outcomes	Related issues which hinder ability to achieve the Higher Order Country Outcomes	CAS Outcome(s) that IDA expects to influence through its interventions and Outcome Level Indicators	Intermediate indicators to track implementation towards expected CAS outcomes	IDA and partner programs	Links with relevant Chapters in EGPRSP
		indicated in the EGPRSP	evaluation.		
<p>Greater involvement of Civil Society in public policy, particularly at local Government level</p> <p>Increase capacity of the poor to resolve their problems through legal means</p>	<p>Limited Civil Society involvement in delivery of social services</p> <p>Limited Civil Society involvement in monitoring development outcomes</p> <p>Low legal consciousness</p> <p>Limited access to legal information and affordable legal services</p> <p>Absence of public policy on legal welfare</p>	<p>Increase number of NGOs/CSOs participating in the delivery of social services and monitoring of government programs</p> <p>Improved provision of legal information and services among the poor in rural and semi rural areas</p> <p>Enhanced public discussions on legal welfare</p>	<p>Increase number of legal service providers</p> <p>Broader scope of legal services for the poor</p> <p>More legal information available to the poor</p>	<p>Lending - Proposed SIF 2 (SIDA and Soros co-financing) Legal Empowerment TA (JSDF)</p> <p>AAA - Proposed People's voice (Base Case FY06)</p>	

Note: Projects and outcomes expected under the High Case lending scenario are denoted in italics.

Moldova: Summary of Development Priorities

As of 10/18/2004

<i>Network Area</i>	<i>Country Performance^a</i>	<i>Major Issue^b</i>	<i>Country Priority^c</i>	<i>IDA Priority^c</i>	<i>Reconciliation of Country and IDA Priorities^d</i>
Poverty Reduction & Economic Management					
Poverty reduction	good	targeting	high	high	
Economic policy	fair	consistency	high	high	
Public sector	fair	efficiency/accountability	moderate	high	ongoing dialogue
Gender	good	prevalence among poor	moderate	moderate	
Human Development Department					
Education	fair	quality improvement, equal access	moderate	high	ongoing dialogue
Health, nutrition & population	fair	mortality, morbidity, equal access	moderate	high	ongoing dialogue
Social protection	poor	protect most vulnerable, targeting	high	high	
Environmentally & Socially Sustainable Development					
Rural development	poor	rural poverty	moderate	high	ongoing dialogue
Environment	fair	ground water	moderate	high	ongoing dialogue
Social development	fair	regional imbalances	high	high	
Finance, Private Sector & Infrastructure					
Financial sector	good	governance, transparency	high	high	
Private sector	fair	regulatory framework	moderate	high	ongoing dialogue
Energy & mining	fair	efficiency/viability	moderate	moderate	
Infrastructure	fair	quality	moderate	moderate	

a. Use "excellent," "good," "fair," or "poor."

b. Indicate principal country-specific problems (e.g., for poverty reduction, "rural poverty;" for education, "female secondary completion;" for environment, "urban air pollution").

c. To indicate priority, use "low," "moderate," or "high."

d. Give explanation, if priorities do not agree; for example, another MDB may have the lead on the issue, or there may be ongoing dialogue.

DEBT SUSTAINABILITY ANALYSIS

1. This attachment updates the debt sustainability analysis (DSA) conducted at the time of the CAS Progress Report of May 2002.¹ This DSA is based on a loan-by-loan database provided by the authorities for Multilateral and Official bilateral creditors as well as a breakdown by main categories for commercial creditors.
2. As of end-2003, the stock of total external debt amounted to US\$1.7 billion or 89 percent of GDP, with public and publicly guaranteed (PPG) external debt at US\$1.0 billion or 52 percent of GDP (excluding energy arrears). The NPV of PPG debt amounts to US\$0.9 billion, equivalent to 47 percent of GDP at end-2003. As reported in the CAS Progress Report, at end-2001 the ratio PPG external debt was 67 percent of GDP, correspondent to 60 percent of GDP NPV terms.
3. Debt service due on PPG external debt in 2002 and 2003 totalled 58 and 44 percent of Central government revenue, respectively. In 2004, debt service on PPG external debt is estimated to decrease at 38 percent of central government revenue (Table 1). With its large public debt service burden and absence of external budgetary support, Moldova has not remained current on its external debt service obligations. As of the end of 2003, external payment arrears, including energy arrears, amounted to US\$437 million, or over 22 percent of 2003 GDP.
4. To be eligible for HIPC debt relief, the ratio of the NPV of public and publicly guaranteed debt to exports of goods and services must exceed 150 percent. In the case of very open economies, such as Moldova, the alternative criteria of the NPV of debt to government revenues must exceed 250 percent. The NPV of debt, in these cases, is calculated after the application of traditional debt relief mechanisms. To actually receive debt relief, assuming eligibility, a country must have a PRGF program with the IMF that has been on track for at least 6 months. In Moldova's case, however, application of traditional debt relief results in a NPV ratio below the relevant threshold and, hence, Moldova is not eligible for HIPC debt relief.

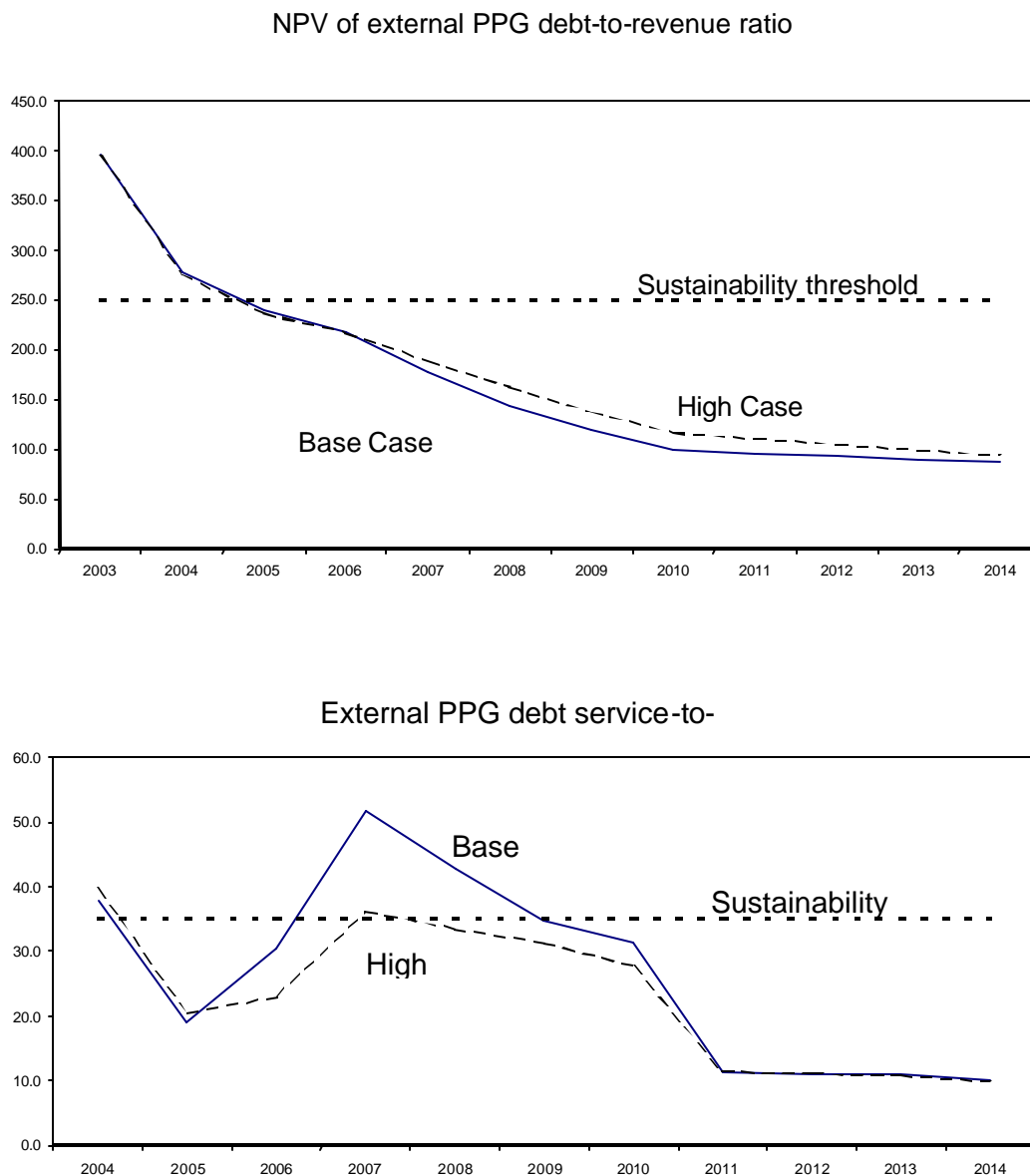
CAS Lending Scenarios

5. **Base Case:** Under the Base Case scenario, IDA lending for FY 2005-08 is projected to be US\$90 million or approximately US\$25-30 million per year. Additional external new borrowing of the public sector is mainly at concessional terms. The availability of external financing, however, heavily depends upon the government performance in the next 12-18 month. Under the Base Case scenario, it is assumed that Moldova resumes interest payments on Paris Club debt in 2004, maintains full debt service on Multilateral debt and Eurobonds and reschedules accumulated interest and principal arrears in 2006. Figure 1 shows that the NPV of debt-to-revenue ratio will drop below 250 percent in 2005 as a consequence of the assumed clearance of external arrears. The ratio of debt service to revenue, however, will only drop substantially below the 35 percent sustainability threshold in 2011.
6. **High Case:** A solid track record in achieving improvements in the business environment and public sector governance would trigger a High Case lending scenario, with additional US\$47 million in adjustment and program lending in 2006-2008. In the High Case scenario, Moldova is expected to benefit from renewed donor support. Furthermore, Moldova is expected to fully normalize relations with creditors by the end of 2005. Additional external new borrowing of the public sector is mainly at concessional terms. In addition to the assumption made under the Base Case scenario, the High Case assumes that debt rescheduling on partly concessional terms offered by the Paris Club and Russia on

¹ Moldova CAS Progress Report No. 24113-MD.

arrears as of end-2005 and on maturities falling due in 2006-2008. Debt owed to Romania and Turkey are assumed to be rescheduled on concessional terms. Figure 1 shows that the NPV of debt-to-revenue ratio will drop below 250 percent in 2005 as a consequence of the normalization of relations with foreign bilateral creditors. The ratio of debt service to revenue will permanently drop below 35 percent in 2008.

Figure 1: NPV of external PPG debt and debt service -to-revenue ratio, 2003-2014



Source: Moldovan authorities and Staff estimates and projections.

Long-Term Debt Sustainability²

7. The Base Case scenario assumes that Moldova will reach an agreement on the payment of principal arrears to bilateral and commercial creditors by end-2005. Under this scenario, Moldova's NPV of PPG debt-to-GDP ratio is estimated to be 63 percent at end-2003, falling to 30 percent at end-2007. The NPV of PPG debt-to-revenue ratio is estimated to be 395 percent at end-2003, falling to 189 percent at end-2007. The debt service-to-revenue projections indicate that the government faces debt service burden higher than in 2003 in the near future. The debt service-to-revenue is projected to be 37.8 percent in 2004³ and peak at 51.8 percent in 2007 as a result of the rescheduling of arrears with other bilateral and commercial creditors.

8. In the High Case scenario, Moldova is expected to reach an agreement with the Paris Club on the rescheduling of debt at terms comparable with other CIS countries⁴ and to reschedule external debt owed to Romania and Turkey at concessional terms. As a result of the rescheduling, Moldova's fiscal sustainability will improve. The NPV of PPG debt-to-GDP ratio is similar with the Base Case scenario. Debt service as a percent of revenue, however, is projected to remain below 35 percent for most of the period, peaking at 36 percent in 2007, compared to 52 percent in the Base Case scenario.

9. Determining if the above ratios signal problems with sustainability of Moldova's debt burden is extremely difficult. Each of the indicators has its merits and limitations in signaling potential debt servicing interruptions, suggesting that they should be used in combination.⁵ A growing body of empirical literature provides some guidance to assess how these indicators compare to thresholds of debt and/or debt service that are associated with a high probability of debt distress or adverse growth implications in low-income countries.⁶ A key result of this literature is that debt thresholds should be established in light of the quality of a country's policy's and institutions, suggesting that countries with stronger policies and institutions can sustain higher debt and debt service ratios. On this basis and given Moldova's fast accumulation of arrears in the past, the difficulties in maintaining future primary budget surpluses and the low tax base, the levels of the debt and debt service-to-revenue ratios are cause for concern in the short and medium term.

10. According to the indicative policy-dependent debt and debt service thresholds⁷, Moldova's NPV of debt and debt service could be considered as sustainable in a range of 200-250 percent and 25-35 percent of revenue, respectively. However, the NPV of debt-to-revenue of Moldova is projected to fall below the indicative range only in 2007, while the debt service-to-revenue ratio is projected to remain steadily below the range only from 2011.

² This section is based on the joint IMF/IDA paper, "Debt Sustainability in Low Income Countries – Proposal for an Operational Framework and Policy Implications", February 2004.

³ The government bought out promissory notes that were handed over to Gazprom within the framework of the restructuring of Moldova's debts for natural gas in 1999. The total amount of the securities that had been bought out reached US\$115 million. The par value of the promissory notes was US\$90m, and the rest of the amount is a debt for their servicing.

⁴ The terms applied are similar to Naples terms.

⁵ For a more extensive discussion of the pros and cons of individual indicators see, "Debt Sustainability in Low Income Countries-Towards a Forward-Looking Strategy," IMF 2003, SM/03/185.

⁶ See, for example, Kraay and Nehru (2004); Patillo et al. (2002); and Cohen (1997).

⁷ The thresholds depend on the Country Policy and Institutional Assessment Index (CPIA) and indicate approximately a 25 percent probability of debt distress at that level (see the joint IMF/IDA paper, "Debt Sustainability in Low Income Countries – Proposal for an Operational Framework and Policy Implications," February 2004).

Conclusion

11. Moldova's NPV of debt-to-revenue ratio is estimated to remain above sustainable levels until 2005 both in the Base Case and High Case scenarios. The high level of external debt resulted from the accumulation of arrears and new borrowing from multilateral and bilateral lenders. Under both the base cases the NPV of debt-to-revenue ratio does not fall below 200 percent until 2007. In the Base Case, debt service is projected to remain well above 35 percent of revenue until 2009. Moldova's prospects for long-term debt sustainability are hampered by low fiscal revenue and dependence over external financing. To reduce the risk of future debt distress the Moldovan authorities must implement their development strategy and obtain continued concessional support. Furthermore, the Government has to carefully assess the impact of new lending on the medium-term capacity of payment.

Table 1. Moldova: External Debt Sustainability Indicators, 2003-14¹
(In percentage, unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Base Case Scenario ²												
NPV of debt-to-GDP ratio												
For total debt	84.5	65.8	60.9	56.8	49.0	42.0	36.5	31.8	31.4	30.6	29.6	28.7
For Public and Publicly Guaranteed (PPG) debt	62.9	44.2	38.2	34.5	28.1	23.0	19.1	15.7	15.2	14.8	14.3	13.9
NPV of debt-to-exports ratio ³												
For total debt	157.4	135.5	130.6	120.2	101.6	85.4	72.7	61.8	60.2	57.5	54.8	52.2
For Public and Publicly Guaranteed (PPG) debt	117.1	91.1	82.1	73.0	58.3	46.7	38.0	30.5	29.1	27.8	26.4	25.3
NPV of PPG debt-to-revenue ratio ⁴	395.4	278.1	240.4	216.8	176.5	144.5	120.1	98.5	95.6	92.8	89.8	87.3
Debt service-to-exports ratio ⁵	...	12.9	7.5	18.2	28.1	25.5	21.6	19.5	9.9	10.5	10.2	9.6
PPG debt service-to-exports ratio ⁵	...	12.4	6.5	10.3	17.1	13.9	11.0	9.7	3.5	3.3	3.2	2.9
PPG debt service-to-revenue ratio ⁵	...	37.8	19.0	30.4	51.8	42.9	34.6	31.3	11.4	11.1	10.9	10.1
High Case Scenario ⁶												
NPV of debt-to-GDP ratio												
For total debt	84.5	65.4	60.2	56.7	50.2	43.9	38.2	33.2	32.2	30.6	29.0	27.5
For Public and Publicly Guaranteed (PPG) debt	62.9	43.9	37.5	34.6	30.0	25.7	21.9	18.5	17.6	16.6	15.7	14.9
NPV of debt-to-exports ratio ³												
For total debt	157.4	132.1	124.5	112.9	95.8	80.0	66.4	55.2	51.3	46.8	42.6	38.7
For Public and Publicly Guaranteed (PPG) debt	117.1	88.5	77.7	68.9	57.1	46.9	38.0	30.7	28.0	25.4	23.1	21.0
NPV of PPG debt-to-revenue ratio ⁴	395.4	275.8	236.0	217.5	188.3	161.8	137.4	116.2	110.4	104.6	98.8	93.7
Debt service-to-exports ratio ⁵	...	13.3	7.7	14.7	20.8	19.7	17.4	15.0	7.8	7.9	7.3	6.6
PPG debt service-to-exports ratio ⁵	...	12.8	6.7	7.3	11.0	9.7	8.7	7.3	2.9	2.7	2.5	2.2
PPG debt service-to-revenue ratio ⁵	...	39.7	20.4	23.0	36.2	33.5	31.3	27.7	11.5	11.2	10.8	9.9
Assuming Naples terms treatment on Paris Club and Russian debt												
PPG debt service-to-revenue ratio ⁵	...	42.2	20.7	23.1	35.3	32.9	30.5	27.0	10.6	10.2	9.8	8.9
Memorandum items:												
(In millions of U.S. dollars)												
Base Case Scenario												
Exports of goods and services ⁷	1054.1	1172.1	1265.2	1344.4	1414.3	1488.7	1568.0	1652.3	1741.2	1834.9	1933.6	2037.6
Government revenues ⁸	312.3	383.9	431.8	452.9	466.8	481.2	496.0	511.3	529.8	549.0	568.9	589.4
GDP	1963.8	2413.8	2714.9	2847.4	2935.2	3025.6	3118.9	3215.0	3331.4	3451.9	3576.8	3706.2
High Case Scenario												
Exports of goods and services ⁷	1054.1	1195.6	1311.7	1442.6	1584.8	1740.7	1916.6	2109.9	2322.7	2557.0	2815.0	3098.9
Government revenues ⁸	312.3	383.9	431.8	457.2	480.5	504.9	530.6	557.5	588.9	622.1	657.1	694.1
GDP	1963.8	2413.8	2714.9	2874.8	3020.9	3174.5	3335.9	3505.5	3702.9	3911.3	4131.5	4364.1
Exchange rate (Leu per U.S. dollar), e.o.p.	13.2	...	...	...	...	...	...	...	...	...	...	...

Sources: Moldovan authorities and staff estimates.

¹ Refers to public, publicly guaranteed and private unguaranteed external debt.

² It assumes interest payments on Paris Club debt in 2004 and 2005; debt buyback on outstanding debt and arrears due to Gazprom and Hewlett-Packard; full debt service on Multilateral debt and on Eurobonds; principal and interest arrears accumulation on all other loans to end-2005; arrears rescheduling in 2006.

³ NPV of debt in percent of three-year average of exports of goods and services.

⁴ NPV of debt in percent of current year government revenues. It refers to public, publicly guaranteed external debt.

⁵ Debt service due as a percentage of current year exports of goods and services.

⁶ It assumes debt restructuring as reported in footnote 3; debt rescheduling on partly concessional terms offered by the Paris Club and Russia on arrears as of end-2005 and on maturities falling due in 2006, 2007 and 2008 included; and concessional debt rescheduling over three years on debt due to Romania and Turkey at 0 percent interest rate.

⁷ As defined in IMF Balance of Payments Manual, 5th edition, 1993.

⁸ Revenues are defined as central government revenues, excluding grants.

MOLDOVA: PORTFOLIO STATUS

1. As of mid-October 2004, the Moldova portfolio comprised 11 ongoing investment projects totaling US\$146.2 million (including one GEF-funded grant of US\$5 million), of which US\$106.2 million is undisbursed. The average age of the portfolio is 2.9 years, ranging from 3 credits approved in FY04 (Energy II, Supplemental Credit for Rural Investment and Services Project, and Social Investment Fund II) to 4 projects over 6 years old (Private Sector Development II, First Cadastre, Social Investment Fund I, and Social Protection Management) and expected to be completed in FY05. The Youth Inclusion Credit approved in FY04 failed to get ratification from Parliament due to the opposition from the leading Communist faction. The loan was cancelled in August 2004.
2. Infrastructure comprises almost half of portfolio in the sectoral composition (water supply, energy, cadastre and Transport and Trade Facilitation in South Eastern Europe (TTFSE)), while human development (health, social protection, Social Investment Fund, and AIDS Control), private sector development, rural and social development (Rural Investment and Services Project (RISP), and Global Environment Facility (GEF) constitute the other half.
3. There is currently one problem project in the portfolio; Social Protection Management, with major implementation delays in key components due to weak Government commitment to pension reforms, with some reversals in already agreed actions. These have undermined the development objectives of project, leading to an unsatisfactory rating. Active dialogue is ongoing to address the problems. Overall, the portfolio is performing well, with implementation of most projects proceeding smoothly. However, a number of projects, may not be able to attain sustainable outcomes, if timely interventions are not undertaken to improve the quality at exit. In addition to the Social Protection Management project, the General Education, Cadastre Development, and Private Sector Development II projects, all closing in FY05, face policy and institutional challenges that may undermine sustainability of the investments.
4. In preparation for the new CAS, the Bank undertook a strategic review of Moldova portfolio in October-November 2003. The objectives of the review were (a) assess the development effectiveness of the portfolio, its overall riskiness and alignment with the existing CAS, (b) identify major processing bottlenecks and recommend measures to facilitate and accelerate implementation of projects, (c) identify strategic management issues and propose recommendations that will help focus the supervision effort in the years ahead.
5. The review found out that IDA's intended lending activity in Moldova has been generally well aligned with the three pillars of the CAS (macroeconomic sustainability and growth, private sector development and public sector reform). However, despite the good match between project and CAS objectives, the contribution of the portfolio to the CAS measured in terms of impact and outcome has been modest.
6. Overall, ownership is considered weak although it varies substantially from project to project, and across the various levels of government. SAC III was poorly supported at the most senior Government levels, while the SIF enjoys broad support at local as well as central government levels. Ownership tends to be weaker when reforms supported pose a significant challenge to vested interests.
7. Lack of institutional, economic and/or financial sustainability was identified as the major issue for the portfolio. Among the main reasons are: (i) poor governance, lack of ownership, and institutional weaknesses, (ii) the overall poverty level and low level of cost recovery from users and beneficiaries; (iii) the weak fiscal situation of the Government, which can only assure low levels of cost sharing followed by

low levels of operations and maintenance financing after projects are completed; and (iv) poor structural reform environment.

8. Findings and recommendations of the strategic review of the portfolio served as a basis for the annual Country Portfolio Performance Review (CPPR) conducted jointly by the Bank and the Moldovan Government in January 2004, with broad participation of the Bank, Government, Project Implementing Units (PIUs), donors and representatives of civil society. The CPPR was held in a format different from earlier review meetings, in a more participatory manner whereby three discussion groups looked at systemic issues that are impeding successful implementation and reaching development objectives, and focused on outcomes and sustainability of the entire portfolio. The issue of more effective coordination and decision-making, among stakeholders and among government agencies, was also discussed. The CPPR's new format was considered a success, and started some important discussions among stakeholders about ownership, impact on the ground and the need for better coordination of efforts to ensure the development effectiveness of the country assistance program. In April 2004, the Bank and the Government agreed on an Action Plan to put into practice the recommendations of the CPPR, including holding regular joint Government/Bank reviews (every 34 months) to look at the key issues in the portfolio and track implementation of the action plan. Capacity building of the clients in procurement, disbursement and monitoring and evaluation, and regular meetings of all Project Implementation Units (PIUs) are intended to address the issues and bottlenecks that impede successful projects implementation.

9. Activities already taking place as a result of the CPPR include video conferences with the Loan Department to clarify disbursement issues, the first Trimestral Review meeting in June 2004 to take stock of implementation of the Action Plan as well as review the status of individual projects, and a training course now under implementation for project staff to strengthen M&E. In October 2004, the Government established a Technical Committee for Monitoring and Evaluation of IDA-financed Projects, which is chaired by the Ministry of Economy and is comprised of high-level officials from various ministries and agencies. The Committee had its first meeting in October to discuss issues relating to several ongoing projects and decide on how to resolve outstanding problems.

10. Among the areas identified to enhance outcomes and sustainability are institutional strengthening and capacity building, key governance issues, more realistic outcome and sustainability objectives, promoting the Community-Driven Development (CDD) approaches, and increasing ownership at various levels of government and civil society. Continued close monitoring and corrective actions by the Government and the Bank on the interrelated issues of development outcomes, sustainability, risks, are planned to ensure expected outcomes. For ongoing and new projects, closer attention will be paid to the monitoring and evaluation (M&E) aspects of a project, including the selection of appropriate M&E indicators for measuring development outcome.

11. With decentralization, Procurement and Financial Management Specialists have been posted in the Regional Office in Kyiv, which has facilitated quick responses and better cooperation. The Loan Department's processing of withdrawal applications was decentralized to the Moscow-based regional hub starting January 5, 2004. The initial analysis of the effects of this decentralization is encouraging - the average processing time for a withdrawal application has been reduced by 4.5 days in the first 3 months since the decentralization.

MOLDOVA: LINK TO MDGs AND COUNTRY STATUS VIS-À-VIS MDGs

1. The EGPRSP recognizes the strong link that exists between economic growth and poverty reduction. Between 2000 and 2002, an average growth rate of 5 percent allowed for a reduction in a poverty headcount from 71 percent of the population to just under 49 percent of the population. To achieve the MDG goal of eradicating extreme poverty, the EGPRSP envisages a move away from the current consumption-led growth paradigm towards a more sustainable growth platform that emphasizes a more enabling and deregulated business environment, leading to increased investments and exports. The EGPRSP suggests that growth rates between 5 and 10 percent are feasible. As the analysis underlying the recent World Bank poverty assessment suggests, a sustain annual growth of 3 percent will be sufficient for Moldova to achieve the MDG target of halving poverty by 2015. The table below compares the current situation in Moldova with the ECA region as well as world averages on the MDGs.

2. The vital role that education plays in changing the quality of economic growth is highlighted in the EGPRSP. Despite the hardships endured in the last decade, Moldova has managed to maintain high levels of participation in the compulsory years of school. Net enrollment rates in the four years of primary school are about 97 percent, while enrollment rates in lower secondary school are also high at 92 percent. With regard to the MDGs, a Moldova specific target is under consideration that stipulates universal access for all children during the gymnasium cycle (i.e., compulsory cycle, grades 1 to 9). The EGPRSP and the associated Education for All initiative have established a number of targets, including increasing enrollment of children 3-5 years old to 75 percent, and 6-7 years old to 100 percent, and reducing disparities between urban and rural areas to less than 5 percent, and reducing disparities between the disadvantaged groups and median population. These targets also include ensuring that all children have access to basic education (1 year compulsory pre-school, and 9 compulsory grades for gymnasium) that is of high quality. Challenges to achieving these targets arise from less than universal attendance for the first and last years of compulsory schooling and from differences in the quality of education for urban-rural areas. Improving the quality of educational services and enhancing access to education, particularly by the poor and disadvantaged groups, are among the issues the EGPRSP hopes to address.

3. Moldova has succeeded in gradually reversing the population's deteriorating health status since the mid-1990s. Under age 5, mortality has been steadily declining, from 25 per 1,000 live births in 1990 down to 18.3 in 2002, while infant mortality has declined from 23.9 per 1,000 live births in 1994 to 14.8 in 2002. Maternal mortality in Moldova has declined from 52.9 deaths per 100,000 live births in 1993 to 28 in 2002 and has remained relatively stable since. However, compared to the outcomes achieved in other European countries, and even some CIS countries, Moldova continues to lag behind in many health indicators. The EGPRSP recognizes that further deepening of the reforms in health care would be required to achieve the MDGs in Moldova. Moreover, increased access, particularly for the poor to basic health services, as well as improved quality and standards of medical services, would be required to achieve the MDGs. Over the longer term, the effective implementation of mandatory medical insurance is the principal means by which Moldova will seek to reform the health care system and improve health care.

4. The health of the population is also affected by inadequate access to quality water supply and sanitation. The EGPRSP estimates that, as a result of the deterioration in the water and sanitation infrastructure, over 50 percent of the population is using water that does not comply with sanitary norms. For rural areas, this estimate extends to nearly 70 percent of the population. Sanitation and wastewater treatment are also inadequate, with only 55 percent of the population in urban areas having access to a public sewage system. The EGPRSP has set out to develop and modernize the water supply and sewage systems in 156 localities and to develop 93,300 rural wells.

Moldova and the Millennium Development Goals			
MDGs	World Situation	Situation in ECA	Current Situation in Moldova
1. Halve between 1990 and 2015 the proportion of people in extreme poverty and who suffer from hunger.	From 1990 to 2001 the proportion of people from low and middle income countries living on less than US\$1 a day fell from 28 percent to 21 percent, but progress was uneven.	From 1990 to 1999 the proportion of ECA's people living on less than US\$1 a day increased from 1.4 percent to 5.1 percent and for those living on less than US\$2 from 6.8 percent to 20.3 percent.	In 2002, the proportion of the population living on less than US\$2.15 per day (PPP values) was 44.6 percent.
2. Achieve universal completion of primary education by 2015 for both boys and girls.	In 2001/2002, 88 percent of the world's primary school-age children are enrolled.	In 2002, the primary completion rate for ECA region was estimated to be 93 percent.	In 2002, the ratio of net enrolment in primary education in Moldova was 93 percent. The net enrollment ratio in gymnasia increased from 87 percent in 1999 to 88 percent in 2002.
3. Eliminate gender disparities in primary and secondary education by 2005 and for all levels by 2015.	There is a gender gap of 7.6 percent in the primary education gross enrolment rate.	In 2001/02, girls' enrollments in primary and secondary education as percentage of boys' accounted for 97 percent.	During 1999-2002, the net ratio of girls enrollment was comparable with that of boys. At the university level, female enrollment was 6-7% higher than male.
4. Reduce under five mortality rates by two-thirds between 1990 and 2015.	The mortality rate was 81 per 1,000 live births in 2002 compared with 95 in 1990.	Under-five mortality rate per 1,000 live births decreased from 44 in 1990 to 37 in 2002.	Under-five mortality rates have been gradually decreasing (from 25 in 1990 to 18.3 in 2002).
5. Reduce maternal mortality rate by three-quarters between 1990 and 2015.	In 2000, there were an estimated 403 maternal deaths per 100,000 live births.	In 2000 the estimated number of the maternal deaths for the region was 58 per 100,000 live births.	Maternal mortality declined from 52 deaths per 100,000 live born children in 1993 to 28 in 2002.
6. Halt and reverse by 2015 the spread of HIV/AIDS, malaria, and other diseases.	In 2001 the prevalence rate of HIV/AIDS among adults aged 15-49 was 1.27 percent.	In ECA the number of HIV infected people increased from 30,000 in 1998 to 1.5 million in 2003.	In Moldova, the HIV infection rate is around 5 per 100,000. TB incidence (at 84 per 100,000 people) has doubled since 1990.
7. Ensure environmental sustainability and access to and improved water source.	In 2000 about 80 percent of the population had access to water.	In 2000, about 91 percent of ECA's population had access to safe water. The proportion of land area covered by forest is 40 percent.	In 2002, the proportion of population with access to water and sustainable access to an improved water source was 92 and 38.5 percent in urban and rural areas respectively. Land areas covered by forest is 10.3 percent.

CAS CONSULTATIONS PROCESS

SUMMARY FEEDBACK FROM CIVIL SOCIETY AND BUSINESS COMMUNITY

“The fact that we have all met here can be considered a success, because in this way, the World Bank gets closer to the entrepreneurs, and this should be the beginning of the collaboration between the World Bank and the entrepreneurs of the Republic of Moldova.”

A Participant at the World Bank Consultations

1. The **Civil Society** consultations included representatives of academia, non-governmental organizations, non-parliamentary political parties, the media, and trade unions. The discussions were lively and heated at times, manifesting a wide variety of concerns and interest as described below.
2. A strong pitch was made for increasing the role and participation of NGOs in development discourse. They requested specifically to be informed on the Bank’s relations with the Government, and to have regular consultations with the Bank on World Bank-financed operations--*“Only access of the civil society to adequate information will help us influence, in one way or another, the Government in implementing the projects under the CAS. If we don’t have access to this information, we obviously cannot help in any way to improve this strategy.”* Further, they expressed the desire that more Bank resources be channeled directly to NGOs in rural areas. *“The Bank should not only consult with civil society, but also start working directly with it through different projects and programs”*.
3. Concerns were raised regarding the weak legal framework, especially for businesses. *“Citizens and business need more equitable legal representation; access to justice needs to be more commonplace, and attorneys and NGOs need to be empowered”*. As a corollary, concerns about corruption and the need for transparency were raised. They requested support to establish transparent systems of transactions; reduce the cost of doing business; remove internal barriers that limit export capacity by influencing government policy and eliminate corruption. Further, they requested support to build the capacity of civil society groups and to support competent NGOs to consolidate and sharpen their skills in engaging local authorities and communities in rural areas
4. The discussions also centered on issues of social protection, social services, and the environment. Specific concerns were raised on the need to improve the quality of education in the rural areas, as well as the need for technical assistance for the creation of vocational schools to stem the tide of out migration. Further, concerns were raised regarding the poor quality of emerging institutions of higher learning and the need for Bank assistance in addressing the problem. Bank support was also requested for improvements in medical services. On the environment, participants indicated that *“the biggest ecological problems are in the rural area and it is very important that the strategy of the World Bank be oriented towards the rural area, including support to ecological and rural tourism”*.
5. Finally, participants would like the World Bank to contribute to making the conditions for the democratic process more propitious. They voiced the concern that *“...it is only through reforms, a state of law, judicial independence, and a liberalized economy can we evolve as a democracy”*. They also want the Bank’s assistance in integrating with the EU *“..this would solve the problem of poverty and of Transnistria and lead us into our future”*, participants said.
6. The **Business Community** consultations included participants from the private (both local and foreign entrepreneurs), the Banking and financial sectors, and state owned enterprises. The key message that emerged from the discussions was that the main goals of the CAS should be to initiate and support the second wave of reforms in Moldova.

7. A strong pitch was made for Bank support for private sector development, particularly support for SME development and private investment promotion in the country. The Bank should *“help bring direct foreign investments into the country for private sector development and not by giving credits to the authorities”*

8. Of concern to many participants was the development of rural areas. Diversification of business and micro financing were proposed as a means of eradicating rural poverty, with support from the Bank in the form of start-up capital and replication of modern cooperative structures in the agricultural sector. Participants expressed the view that productivity of the workforce is dependent upon many factors, such as the quality of education, communications, modern health services, an improved natural environment, investments in hydroelectric and thermoelectric power stations; all of which they said are critical for poverty reduction in Moldova.

9. A number of participants made a strong pitch for Bank support for infrastructure rehabilitation, in particular the rehabilitation of the 25-30 year old infrastructure. *“Without the improvement of roads, we cannot speak of economic growth and poverty reduction. A serious support is needed for the transportation domain”*. Some participants argue, however, that such support must be channeled through the private sector and civil society, not through the government and state enterprises.

10. Participants expressed the view that the country needs economic stability and long-term sources of credits with low interest rates to the private sector to promote growth. In this regard, a number of participants voiced the concern that continuous modifications of tax laws and changes in taxes pose serious impediments to emerging businesses. Further, they indicated that the complex regulatory procedures, requiring several documentations for each transaction, dissuade investors and make the cost of doing business exorbitant. Participants also expressed concerns about export barriers. *“Export barriers, either legislative or of other kind, are not set in an objective manner in Moldova”*. They also raised concerns that external barriers to exports were major impediments for Moldova exports. *“Unfair competition in traditional and emerging markets curtails serious growth efforts”*, said participants. They expressed the need for Bank support to implement international acceptable standards for Moldovan exports.

11. On governance, consistent with views expressed by the civil society, participants felt that corruption is a major obstacle. *“The law has to be equal for everybody. The Bank can make the Government become more transparent through financial, political, and structural pressure”*. They also indicated that governance of Bank-financed operations have in the past been weak, and welcome recent efforts at closely monitoring the portfolio.

12. Public debt was also a concern. *“The World Bank could help with the relief of Moldova’s debts, but impose some conditions on the Government”*. Knowledge was expressed as important. *“Our country needs knowledge. We need skilled technical assistance in order to improve and increase the potentials of our national capacity of analyzing and forecasting”*.

13. Overall, the business community views the Bank’s strengths as disseminating the experience of developed countries and assisting in establishing trade networks. *“Public information, education, and communication on political, judicial, and economic issues are much needed for getting the peoples’ support for reforms”*.

14. Finally, they expressed the need for a continuous dialogue with international financial institution (IFIs). It was their hope that continuous flow of information between the IFIs, Moldovan business community and civil society would more readily assist the country in accelerating the transition to a market driven economy.