

**MOLDOVA**  
**RESULTS AND THE WORLD BANK**

**December, 2006**

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

FISCAL YEAR  
January 1 to December 31

WEIGHTS AND MEASURES  
Metric System

ACRONYMS AND ABBREVIATIONS

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

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## RESULTS AND THE WORLD BANK

### MOLDOVA

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## RESULTS AND THE WORLD BANK MOLDOVA

### I. INTRODUCTION

1. The World Bank has moved in recent years, together with the rest of the development community, to place a stronger focus on the results of its programs. The Millennium Development Goals were adopted five years ago with specific, tangible global development targets by 2015.<sup>1</sup> A joint statement by the heads of the Multilateral Development Banks (Monterrey, March 2002) underscored this commitment.<sup>2</sup> A series of gatherings, culminating in the Paris High-Level Forum on Aid Effectiveness (March 2005) brought together a range of stakeholders—bilateral agencies, multilateral institutions, and developing country partners—to address the aid effectiveness agenda.<sup>3</sup> Commitments of additional development finance, such as at the G8 Gleneagles Summit (July 2005) have emphasized the need for effective coordination and the delivery of tangible results to people on the ground. IDA-14 has introduced an explicit performance-based allocation system for access to IDA resources.<sup>4</sup>

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

3. ***Structure of report.*** The report is structured as follows. Section II summarizes Moldova's progress on a range of economic and social development dimensions since July 1, 2004.<sup>6</sup> Section III summarizes the Bank's strategy for engagement in Moldova, progress with its implementation, and a selection of qualitative and quantitative indicators of performance. Section IV assesses the links between country-level achievements and the IDA program. Finally, Section V sets out overall conclusions and actions planned to build national capacity to manage for results through our engagement with the government and other stakeholders, while strengthening the results dimensions in the Bank's own activities in the coming year.

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

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

<sup>3</sup> The Paris Declaration focuses, inter alia, on issues of aid quality and results, including identifying measures to support increased aid effectiveness, and monitoring process improvements. See [www.oecd.org/dac/effectiveness](http://www.oecd.org/dac/effectiveness).

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

<sup>5</sup> The report will also be published on the Bank's website. See [www.worldbank.org/md](http://www.worldbank.org/md).

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

## II. COUNTRY ACCOMPLISHMENTS

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

**TABLE 1. MOLDOVA: MACROECONOMIC FRAMEWORK, 2001-2006**

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

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

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

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

## 6. Moldova's development agenda.

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

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

8. **MDG status.** Assessing progress toward achieving the MDGs in Moldova is complicated by the lack of consistent data and baselines across sources. According to a review prepared by the ECA region of the Bank, Moldova showed modest progress on most of the MDG targets<sup>7</sup>. In common with most lower-income CIS countries, achieving the MDGs is challenging for Moldova, with only MDG3 (gender equity) assessed as on track and four goals at risk of not being achieved (education, child mortality, prevention of the spread of HIV/AIDS and other diseases, and access to water). The poverty reduction (goal 1) and maternal mortality (goal 5) MDGs have been assigned yellow

**TABLE 2: AN OVERVIEW OF POVERTY IN MOLDOVA**

(In percentage points, unless labeled otherwise)

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

a/ 2005 Q1-Q3;

Sources: World Bank & National Bureau of Statistics.

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

flags (i.e., too difficult to tell), although, as noted in Table 2, there has been significant progress on income dimensions of poverty<sup>8</sup>.

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

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

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

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

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

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

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

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

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

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

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

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

Source: Doing Business 2007.

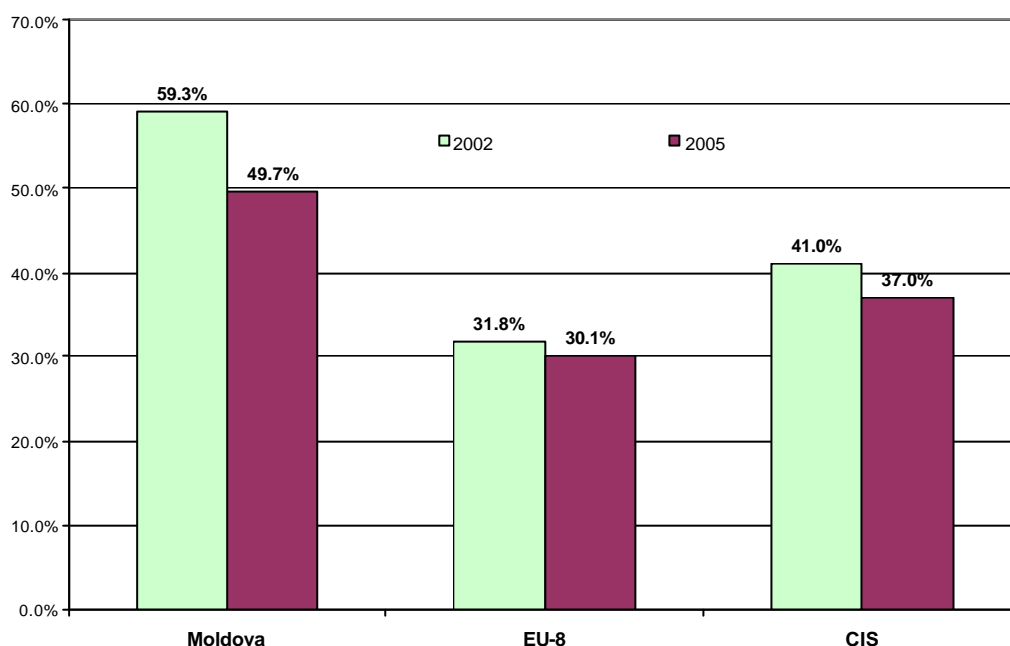
13. The government's efforts to establish a track record of reform are reflected in the Bank's Country Policy and

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

<sup>10</sup> See [www.doingbusiness.org](http://www.doingbusiness.org).

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

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



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

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

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

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

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

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

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

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

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

**TABLE 5: MOLDOVA 2005 COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT RATINGS**

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

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

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

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

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

### III. BANK ENGAGEMENT IN MOLDOVA

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

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

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

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

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

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

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

26. **Quality of Bank program.** Internal measures of the quality of the Bank's work<sup>16</sup> suggest that it has been improving over the last two years. The only project evaluated by

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## IV. IDA'S CONTRIBUTION TO COUNTRY RESULTS

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

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

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

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

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

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

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

## Box 2. Moldova: Key Achievements During the CAS Period

### Broad Development results

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

### CAS Supported Results

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

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

## V. PLANNED ACTIONS TO IMPROVE RESULTS OF IDA

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

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

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

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

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

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

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

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