

# IEG ICR Review

Independent Evaluation Group

<b>1. Project Data :</b>		<b>Date Posted :</b> 07/21/2011	
<b>Country:</b>	Moldova		
	<b>Is this Review for a Programmatic Series?</b>	<input checked="" type="radio"/> Yes <input type="radio"/> No	
	<b>How many operations were planned for the series?</b>	3	
	<b>How many were approved?</b>	2	
<b>Series ID :</b>	S099166		
<b>First Project ID :</b>	P099166	<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b>	Poverty Reduction Support Credit (PRSC)	<b>Project Costs (US\$M):</b>	10 10
<b>L/C Number :</b>	C4236	<b>Loan/Credit (US\$M):</b>	10 10
<b>Sector Board :</b>	EP	<b>Cofinancing (US\$M):</b>	
<b>Cofinancers :</b>	DFID	<b>Board Approval Date :</b>	10/19/2006
		<b>Closing Date :</b>	10/31/2007 10/31/2007
<b>Sector(s):</b>	Central government administration (34%); General industry and trade sector (33%); General agriculture fishing and forestry sector (11%); Compulsory pension and unemployment insurance (11%); Agricultural marketing and trade (11%)		
<b>Theme(s):</b>	Regulation and competition policy (29% - P); Administrative and civil service reform (29% - P); Rural policies and institutions (14% - S); Trade facilitation and market access (14% - S); Public expenditure; financial management and procurement (14% - S)		
<b>Second Project ID :</b>	P103941	<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b>	Poverty Reduction Support Credit 2 (PRSC 2)	<b>Project Costs (US\$M):</b>	10 10
<b>L/C Number :</b>	C4413	<b>Loan/Credit (US\$M):</b>	10 10
<b>Sector Board :</b>	EP	<b>Cofinancing (US\$M):</b>	3 million pound sterling for PRSC1, 2 and 3 2.5 million pound sterling for PRSC1 and 2
		<b>Board Approval Date :</b>	05/13/2008
<b>Cofinancers :</b>	DFID	<b>Closing Date :</b>	12/31/2008 12/31/2008
<b>Sector(s):</b>	General public administration sector (30%), Roads and highways (20%), General education sector (20%), General industry and trade sector (15%), Agricultural marketing and trade (15%)		
<b>Theme(s):</b>	Rural policies and institutions (20% - P), Education for all (20% - P), Regulation and competition policy (20% - P), Infrastructure services for private sector development (20% - P), Administrative and civil service reform (20% - P)		
<b>Evaluator :</b>	<b>Panel Reviewer :</b>	<b>ICR Review Coordinator :</b>	<b>Group :</b>
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## 2. Project Objectives and Components:

### a. Objectives:

The program document of the First Poverty Reduction Support Credit (PRSC1) states that "the proposed credit aims to enhance the Government's ability to accelerate economic growth and improve the efficiency of its social

programs and public administration-key elements in poverty reduction” (p. i) and “to support the Government’s economic growth and poverty reduction strategy” (p. 20, par 54). The program document for the Second Poverty Reduction Support Credit (PRSC2) stated the credit’s objective as “to support the Government’s anti-poverty strategy” (p. 16, par. 46). The financing agreements do not state general objectives .

The program documents for PRSC1 (pp. 20-21, par. 54) and PRSC2 (p. 16, par. 46) state the specific objectives of the operations as:

- Objective 1: improving the investment climate;
- Objective 2: improving the efficiency and management of public resources; and
- Objective 3: strengthening pension and social assistance systems .

The financing agreements (FAs) state objectives 1 and 2 as the program documents do, and objective 3 as “strengthening social protection systems” (p. 5 for both credits).

This review takes as the program objectives the ones in the financing agreement, which the ICR uses to assess the program’ performance.

**b. If this is a single DPL operation (not part of a series), were the project objectives/ key associated outcome targets revised during implementation?**

No

**c. Policy Areas:**

The program sought to support the government’s strategy for poverty reduction and economic growth with three operations. The third operation failed to materialize because the government did not meet several triggers for the third credit, its program with the IMF -hence the macroeconomic framework- went off track, and the government that took over in September 2009 focused its priorities in stimulating recovery and addressing the effects of the global economic crisis .

The program covered three policy areas (e.g., pillars): investment climate, public sector resources, and social protection. Under these areas the program covered (a) business regulations, trade, agricultural markets, and energy vulnerability; (b) procurement, civil service, and the allocation of public resources to agriculture, transportation infrastructure, education, and health care; and (c) the reform of the pension system and the distributional efficiency of the benefits of the system .

The government completed the nine and six prior actions agreed to for PRSC 1 and PRSC2 and maintained a satisfactory macroeconomic framework in 2006-08.

**d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

The PRSC1, for SDR 6.8 million (US\$10 million equivalent), was approved on October 19, 2006, became effective on March 20, 2007, and closed on October 31, 2007, as planned. The PRSC2 for SDR 6.1 million (US\$10 million equivalent), was approved on May 13, 2008, became effective on July 23, 2008, and closed on December 31, 2008, as planned. The third operation, PRSC3, was cancelled.

The United Kingdom (DFID) supported the PRSC series by committing 3 million pound sterling, of which it transferred 2.5 million against PRSC 1 and 2. The balance of 0.5 million pound sterling could not be transferred because of the cancellation of the PRSC3.

**3. Relevance of Objectives & Design:**

**a. Relevance of Objectives:**

Poverty rates fell from 73 percent in 1999 to 29 percent in 2005 thanks to annual growth of 7 percent during 2000-05 and remittances from workers that left the country in the 1990s. Rapid growth and debt rescheduling operations reduced Moldova’s external debt from 106 to 55 percent of GDP between 2001 and 2005. In 2005 and 2006 Moldova suffered a substantial loss in its terms of trade, the result of a Russian ban on imports of Moldovan wine (about 24 percent of Moldova’s exports and 10 percent of its GDP) and an almost doubling of the prices paid for fuel and natural gas, two commodities it had to import to meet its energy needs . That loss

threatened the stability of the economy and portended an increase in poverty . Moreover, the program defined ultimate and specific objectives consistent with the government 's objectives and strategy set in its Economic Growth and Poverty Reduction Strategy Paper (EGPRSP). To advance on the growth and poverty reduction agenda the PRSC supported selective areas of the EGPRSP where the reforms had to be consolidated, prioritized, and deepened. As remittances were expected to wane and with it the consumption -led growth, one source of growth had to be the real cost reductions arising from a more competitive enterprise and farming sector. Another source of growth had to come from the real cost reductions arising from a better use of resources in the public sector . Last, a third source of real cost reductions would have to come from using funds for social assistance better, targeting them to those who truly needed and by unifying the pension system for all types of pensioners. Therefore, seeking faster growth through a better investment climate, better use of government resources, and more efficient social expenditures had *substantial* relevance.

#### **b. Relevance of Design:**

Most of the actions were consistent with the specific objectives of the operations, and in most cases the results indicators were consistent with the actions agreed to and served to assess program performance . In some instances the link between actions, results and objectives was unclear or the indicators were unrealistic . In one case, spending in means-tested programs, the program document adopted a baseline value whose origin and accuracy the ICR questions because at the time (2005) the government did not have means-tested programs. Overall relevance of design is *substantial*.

#### **4. Achievement of Objectives (Efficacy):**

##### Objective 1: Improving the Investment Climate (Efficacy is substantial)

The financing agreements for PRSC 1&2 identified five prior actions to be carried out . The actions covered business regulations, trade, and agriculture but did not cover energy; the PRSC 2 policy matrix, though, listed prior actions in energy that were to be included in the financing agreement for PRSC 3. Although the financing agreements for PRSC1 and PRSC2 lack prior actions on energy they were planned for PRSC 3; for this reason, the review reports achievements in energy and includes its results to assess program performance .

*Reducing regulatory and administrative costs of business regulations*: The program supported a review and simplification of regulations with the aim of reducing the cost of entering, exiting, licensing, and operating a business. A framework law amended over 80 laws and mandated assessing the impact of regulations whenever the government planned issuing a new one affecting businesses . The program succeeded in reducing the cost of (a) management time spent complying with regulatory requirements, from 17 percent of its total time in 2005 to 11 percent in 2009; (b) of licensing and authorizations, from 30 percent of per capita GDP (ICR does not say when, but possibly in 2005) to 13.3 percent of GDP at the end of 2009.

*Improving trade facilitation*: The program supported introducing an Automated System for Customs Data -ASYCUDA, a risk-based selectivity customs system module -, to increase efficiency in customs and reduce the costs of cross-border trade. The program helped in reducing the time to clear customs, from 471 minutes in 2004 to 47 minutes for exports and 62 minutes for imports; the fall was substantial, but the actual time fell short from the target of 30 minutes. The program also helped in reducing the proportion of physical inspections from 100 percent to 32 for imports and 29 percent for exports; the target was 30 percent.

*Developing agricultural markets*: The program supported liberalizing markets through the elimination of a de facto monopsony, the Universal Commodities Exchange . The government issued Decisions 946 of August 18, 2006 and 282 of March 11, 2008 whereby it made voluntary the transactions for all commodities in the Exchange, and took additional steps to standardize products and to liberalize markets for seeds and seedlings . The program helped to reduce the gap between farm gate and international prices of wheat and maize by the expected 25 percent, but did not do so for oil seeds, whose market remained depressed as a result of the lobbying power of the domestic processing industry . The liberalization of the seeds market helped to increase the number of registered varieties from 111 in 2006 to 233 in 2008, exceeding its target of increasing by no less than 25 percent. Rural poverty, though, increased, in part a result of Russia 's ban on wine exports, the drought in the summer of 2007, and falls in farm productivity; these events may help explain why thousands of rural workers left the country .

*Reducing energy vulnerability*: The government took steps to reduce vulnerability and the following results can be reported. First, total primary energy consumed per unit of real GDP fell from 1.8 in 2005 to 1.39 in 2009, and

the cash collection ratios for gas and electricity reached 92.5 and 98 percent in 2008. Second, tariffs for gas, electricity and heating were increased, thereby permitting full cost recovery at the end of 2010. The government, though, needs to ensure that household expenditure in energy is reported as a separate item in the household budget surveys and to make its regulatory framework compatible with the relevant provisions of the Energy Community of South Eastern Europe.

#### Objective 2: Improving the Efficiency and Management of Public Resources (Efficacy is modest)

The financing agreements for PRSC 1&2 identified seven prior actions to be carried out. The actions covered procurement, civil service and its remuneration, and allocation of resources in agriculture, transport and education. Although the agreements do not list prior actions for health care, the review reports achievements in this area.

*Building a meritocratic civil service:* The program supported the government's adoption of a new Civil Service Law and of a strategy to ensure that recruitment is carried out on merit and competitively. A civil service law was approved in December 2008 and its implementation is under way. The system to grade and classify civil service posts lacks regulations and the automated civil service register is not yet functional. Even so, about 30 percent of new civil servants were appointed through a competitive process in 2007 and at present all government ministries and agencies advertise vacancies in local media.

*Implementing a transparent and uniform remuneration system for civil servants:* The government adopted a law that sought a more transparent and uniform system of remuneration for civil servants. In part as a result of the law the information on public sector pay was centrally available for review and analysis, and at the end of 2008 the base salary accounted for 80 percent of the total remuneration, reaching the target of 75-80 percent.

*Improving the strategic allocation of public resources in agriculture, transport and education, and promote efficiency in health care spending:* The program supported prior actions on agriculture, transport and education but not on health care. On agriculture the prior action sought to streamline the government's support for it by replacing the system of subsidies based on size and farm ownership structure for one based on objective and transparent eligibility criteria. With its adoption the program sought to eliminate debt write-offs, to reduce recurrent subsidies, especially to large farms, and to increase the share of subsidies for peasant farmers. The program succeeded in eliminating only the debt write offs. On transport the program supported the adoption of a strategy that included mechanisms for reform of road financing, competition in executing road maintenance contracts, and participation of road users in overseeing the financing of road maintenance. The outcome indicators selected were not achieved, but perhaps more important, they bore little relation to the actions the program supported. On education the program supported reforms to the sector with the purpose of optimizing school networks, identifying schools for optimization, defining efficiency target indicators, and piloting new funding formulas. The expected outcomes, which bore little relation to the actions the program supported, were not achieved: instead of rising, the student teacher ratio fell from 12.7 in 2005 to 11.6 in 2009. The ICR does not provide information about the other indicator, the student non -teacher ratio, whose meaning and relevance are not clear. In health care the main results to highlight are: (a) all managers of primary health care centers are selected on a competitive basis; and (b) the government increased the share of total health spending going to primary health care centers from 17 percent in 2005 to 31 percent in 2009.

*Improve competition in public procurement:* The program supported increasing the use of open tendering and reducing the use of single source procurement in government contracts. The targets set in the program document were achieved. In 2009 more than 50 percent of the number of contracts and more than 70 percent of their value was awarded through open tenders, exceeding the lower bound targets of 50 and 70 percent. For single source procurement the government awarded less than 10 percent of the number and value of contracts, meeting its target of 10 percent or less.

#### Objective 3: Strengthening Social Protection Systems (Efficacy is substantial)

The financing agreements for PRSC 1&2 identified two prior actions to be carried out. The actions covered reform of the pension system and the distributional efficiency of the benefits of the social assistance system.

*Completing pension system reform program:* The program promoted the matching of pension payments and individual contributions, and the establishment of individual accounts for those contributing to the pension fund. The government has not matched pension payment and individual contributions (in the words of the results matrix to increase correlation between contribution and payment) because it has not started paying pensions based on contributions. On the other hand, the government has started entering the information on individual accounts for all known-pension fund contributors, thereby achieving the objective; the achievement, though, does not mean that every person in the pension system has an individual account.

*Enhance the distributional efficiency of the social assistance benefit system* : The program document (Annex 2 of PRSC2) defined prior actions but they do not appear in the financing agreement . The government approved a draft law on targeted social assistance and eliminated non -targeted social assistance programs in 2009. The ICR informs that the amount the government spends in means-tested programs stood at two percent of GDP in 2008, but there is no baseline value to compare it . According to the ICR, the value used as baseline for poverty-targeted social assistance programs, 17.7 percent of the total expenditure in social assistance, is not reliable because it is not known how it was obtained . The ICR also comments that means-tested programs did not exist in 2005, making it difficult to compare numbers now and then .

#### **5. Efficiency (not applicable to DPLs):**

#### **6. Outcome:**

The program had substantial relevance of objectives and design, and efficacy was modest in one objective and substantial in the other two. The results were good in improving the investment climate, especially regulations and trade, in procurement and civil service pay and in pension reform . Outcomes fell short of expected on the development of agricultural markets, building a meritocratic civil service, and improving the strategic allocation of public resources.

**a. Outcome Rating :** Moderately Satisfactory

#### **7. Rationale for Risk to Development Outcome Rating:**

The review agrees with the ICR in its assessment of the sources of problems that could jeopardize what has been achieved. Among these problems, it is worth noting the vulnerability to external shocks, the power of vested interests to block reform, as demonstrated in the oil seeds sector, the limited capacity of the government to plan and execute reforms, and the political uncertainty arising from the power struggle between major political groups. Since these problems can materialize rather easily, the review considers that the risk to development outcome is significant.

**a. Risk to Development Outcome Rating :** Significant

#### **8. Assessment of Bank Performance:**

##### **a. Quality at entry:**

The rapid growth in the years prior to the program showed the strong influence of growth in reducing poverty, especially urban poverty . The three pillars supporting the government 's program combined measures to stimulate and sustain growth (under investment climate and efficiency in using public resources ) and alleviate poverty (social assistance programs). The conception for this assistance and the form it took resulted from the Bank 's experience with previous structural adjustment credits and its engagement in the country through its AAA and investment programs . Because the assistance was aligned with the EGPRSP program, the potential problem of weak ownership of reforms was attenuated . Moreover, to reduce the risks arising from weak institutional capacity, the Bank, together with other donors, mobilized resources to build capacity and to provide technical assistance . The following shortcomings should be noted, though . The Bank paid insufficient attention to the political economy of reform, overestimated the ability of the government to execute the program, and selected some results indicators that did not measure intended outcomes .

**Quality-at-Entry Rating :** Moderately Satisfactory

##### **b. Quality of supervision:**

The Bank provided sufficient resources and continuity of staff to supervise the operations . That effort permitted to modify triggers for PRSC2 and to abort PRSC3 when the conditions in the country changed . It is

not clear to this review, though, the rationale for aborting PRSC 3 and replacing it with a “new DPO [development policy operation] which maintained the spirit of PRSC 3” when the conditions for going ahead with a PRSC3 were absent.

**Quality of Supervision Rating :** Moderately Satisfactory

**Overall Bank Performance Rating :** Moderately Satisfactory

#### **9. Assessment of Borrower Performance:**

##### **a. Government Performance:**

The government carried out most of the reforms initially agreed to, but its interest in reform weakened as a new operation was ready to be rolled on, which led to modifying prior actions for PRSC 2 and aborting PRSC3. Despite this shortcoming the government established a policy coordination unit and created an inter-ministerial committee, chaired by the First Deputy Prime Minister, to evaluate the process of reform; these units, though, were insufficient to keep the reform going and the program intact .

**Government Performance Rating :** Moderately Satisfactory

##### **b. Implementing Agency Performance:**

**Implementing Agency Performance Rating :** Not Applicable

**Overall Borrower Performance Rating :** Moderately Satisfactory

#### **10. M&E Design, Implementation, & Utilization:**

##### **a. M&E Design:**

The program document specified the objectives clearly, but the relevance and usefulness of the selected results indicators varied. Some indicators measured well whether the expected outcome actually happened, others lacked baselines or were inappropriate to determine achievement of outcomes and objectives, and others lacked a logical link with the prior action.

##### **b. M&E Implementation:**

An inter-ministerial steering committee was charged with gathering information on the benchmark and outcome indicators for the PRSCs, as well as for the EGPRSP, the Moldova -EU action plan, and the medium-term expenditure framework. The government’s annual report on the EGPRSP produced information to monitor the PRSCs, and the National Bank of Moldova and the National Bureau of Statistics supplied the information to assess macroeconomic performance and judge whether the macroeconomic framework was satisfactory .

##### **c. M&E Utilization:**

The information gathered was used to redesign the scope of the program, scaling it back on civil service reform, education and pension, and expanding it in investment climate and transportation . Also, it served to inform the decision to abort the PRSC3.

**M&E Quality Rating :** Substantial

**11. Other Issues****a. Safeguards:**

None

**b. Fiduciary Compliance:**

None

**c. Unintended Impacts (positive or negative):**

None

**d. Other:**

<b>12. Ratings:</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement / Comments</b>
<b>Outcome:</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Risk to Development Outcome:</b>	Moderate	Significant	The analysis in the ICR points to a significant risk to development outcome (see Section 7).
<b>Bank Performance :</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Borrower Performance :</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**13. Lessons:**

There are two key lessons:

The experience of PRSCs 1 and 2 indicates that the Bank overestimated the ability of the government to execute the program and underplayed the interaction between parliament and government . The experience suggests that overlooking how organizations work and who is responsible for approving and implementing laws and regulations is likely to derail a reform program or parts of it and to delay its execution .

The experience of PRSCs 1 and 2 also suggests that policy reforms that pay insufficient attention to the constraints of the government's institutional capacity are likely to lead to less than satisfactory results .

**14. Assessment Recommended?**
 Yes  No
**15. Comments on Quality of ICR:**

The ICR provides sufficient information to review the program, is particularly good and straightforward in most of section 3.2 on achievement of program development objectives, and its ratings are consistent with the discussion in the text. While the ICR is of good quality, the review notes some areas that could have been strengthened. In the background section the ICR could have explained the problems affecting Moldova and their link to the specific objectives of the program (e.g., investment climate, use of public resources, and social protection). Section 3.1, which discusses relevance of objectives and design, has unnecessary material. The discussion of achievement on trade and transport is insufficient. On trade it is not clear when the results were achieved, and what was the magnitude of the problem in 2006. On the budget for transport and in the discussion of agriculture the report presents some values in local currency and some in US dollars, making it hard to figure out what happened.

**a. Quality of ICR Rating :** Satisfactory