Document of

The World Bank

Report No: ICR00001649

IMPLEMENTATION COMPLETION AND RESULTS REPORT

(IDA-44130, TF-93386,TF-93305)
(IDA-42360, TF-58120,TF-58118)

ON A

POVERTY REDUCTION SUPPORT CREDITS

IN THE AMOUNT OF

1. **US$10.0 MILLION EQUIVALENT**
2. **US$10.0 MILLION EQUIVALENT**

TO THE

REPUBLIC OF MOLDOVA

February 7, 2011

Poverty Reduction and Economic Management Department
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February, 2011)

Currency Unit = Moldovan Lei
US$ 1.00 = MDL 12.00

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ASYCUDA	Automated System for Customs Data
CAS	Country Assistance Strategy
CEP	Competitiveness Enhancement Project
CIS	Commonwealth of Independent States
CODB	Cost of Doing Business
CP	Communist Party
CPAR	Central Public Administration Reform
CPS	Country Partnership Strategy
DFID	Department for International Development (of the UK)
DPO	Development Policy Operation
ECSEE	Energy Community of South Eastern Europe
EGPRSP	Economic Growth and Poverty Reduction Strategy Paper
EU	European Union
IDA	International Development Association
IMF	International Monetary Fund
LDP	Letter of Development Policy
MCS	Moldova Customs Service
MDTF	Multi-Donor Trust Fund
MTEF	Medium-Term Expenditure Framework
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
NDS	National Development Strategy
OECD	Organization for Economic Cooperation and Development
PHRD	Japan Policy and Human Resources Development Trust Fund
PPA	Public Procurement Agency
PPL	Public Procurement Law
PRGF	Poverty Reduction and Growth Facility (of the IMF)
PRSC	Poverty Reduction support Credit
PRSP	Poverty Reduction Strategy Paper
RIA	Regulatory Impact Assessment
SAC	Structural Adjustment Credit
SIDA	Swedish International Development Cooperation Agency

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REPUBLIC OF Moldova
Poverty Reduction Support Credits I and II
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A. Basic Information			
Program 1			
Country	Moldova	Program Name	Poverty Reduction Support Credit (PRSC)
Program ID	P099166	L/C/TF Number(s)	IDA-42360,TF-58118,TF-58120
ICR Date	04/11/2011	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	REPUBLIC OF MOLDOVA
Original Total Commitment	XDR 6.80M	Disbursed Amount	XDR 6.80M
Implementing Agencies Ministry of Finance			
Cofinanciers and Other External Partners Government of Netherlands UK-funded DFID			
Program 2			
Country	Moldova	Program Name	Poverty Reduction Support Credit 2 (PRSC 2)
Program ID	P103941	L/C/TF Number(s)	IDA-44130,TF-93305,TF-93386
ICR Date	04/11/2011	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	REPUBLIC OF MOLDOVA
Original Total Commitment	XDR 6.10M	Disbursed Amount	XDR 6.10M
Implementing Agencies Ministry of Finance			
Cofinanciers and Other External Partners Government of Netherlands UK-funded DFID			

B. Key Dates

Poverty Reduction Support Credit (PRSC) - P099166				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	02/08/2006	Effectiveness:		03/20/2007
Appraisal:	07/17/2006	Restructuring(s):		
Approval:	10/19/2006	Mid-term Review:		
		Closing:	10/31/2007	10/31/2007

Poverty Reduction Support Credit 2 (PRSC 2) - P103941				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	10/01/2007	Effectiveness:	07/23/2008	07/23/2008
Appraisal:	03/28/2008	Restructuring(s):		
Approval:	05/13/2008	Mid-term Review:		
		Closing:	12/31/2008	12/31/2008

C. Ratings Summary

C.1 Performance Rating by ICR

Overall Program Rating	
Outcomes	Moderately Satisfactory
Risk to Development Outcome	Moderate
Bank Performance	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Overall Program Rating			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry	Moderately Satisfactory	Government:	Not Applicable
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Not Applicable
Overall Bank Performance	Moderately Satisfactory	Overall Borrower Performance	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Poverty Reduction Support Credit (PRSC) - P099166			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating:**
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Satisfactory		

Poverty Reduction Support Credit 2 (PRSC 2) - P103941			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating:**
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status			

D. Sector and Theme Codes

Poverty Reduction Support Credit (PRSC) - P099166		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Agro-industry, marketing, and trade	11	11
Central government administration	34	34
Compulsory pension and unemployment insurance	11	11
General agriculture, fishing and forestry sector	11	11
General industry and trade sector	33	33
Theme Code (as % of total Bank financing)		
Administrative and civil service reform	29	29
Public expenditure, financial management and procurement	14	14
Regulation and competition policy	29	29
Rural policies and institutions	14	14
Trade facilitation and market access	14	14

Poverty Reduction Support Credit 2 (PRSC 2) - P103941		
	Original	Actual
Sector Code (as % of total Bank financing)		
Agro-industry, marketing, and trade	15	15
General education sector	20	20
General industry and trade sector	15	15
General public administration sector	30	30
Roads and highways	20	20
Theme Code (as % of total Bank financing)		
Administrative and civil service reform	20	20
Education for all	20	20
Infrastructure services for private sector development	20	20
Regulation and competition policy	20	20
Rural policies and institutions	20	20

E. Bank Staff

Poverty Reduction Support Credit (PRSC) - P099166		
Positions	At ICR	At Approval
Vice President:	Philippe H. Le Houerou	Shigeo Katsu
Country Director:	Martin Raiser	Paul G. Bermingham
Sector Manager:	Benu Bidani	Asad Alam
Task Team Leader:	Dino Leonardo Merotto	Lawrence Bouton
ICR Team Leader:	Olasupo Olusi	
ICR Primary Author:	Olasupo Olusi	

Poverty Reduction Support Credit 2 (PRSC 2) - P103941		
Positions	At ICR	At Approval
Vice President:	Philippe H. Le Houerou	Shigeo Katsu
Country Director:	Martin Raiser	Paul G. Bermingham
Sector Manager:	Benu Bidani	Asad Alam
Task Team Leader:	Dino Leonardo Merotto	Lawrence Bouton
ICR Team Leader:	Olasupo Olusi	
ICR Primary Author:	Olasupo Olusi	

F. Results Framework Analysis

Program Development Objectives (from Program Document)

Poverty Reduction Support Credit One (PRSC 1) for the Republic of Moldova

follows an intensification of the Government#s reform efforts over the past several years and is intended to bolster and deepen those efforts. More specifically, the proposed credit aims to enhance the Government#s ability to accelerate economic growth and improve the efficiency o f i t s social programs and public administration - key elements in poverty reduction. To this end, the proposed PRSC will support selective areas o f the Government#s reform agenda, as outlined in the Poverty Reduction Strategy Paper (PRSP) and the European Union (EU)-Moldova action plan, thereby complementing and reinforcing other Bank Group programs in Moldova, the International Monetary Fund (IMF)-supported Poverty Reduction Growth Facility (PRGF) and other donor activities. Closely aligned with the Country Assistance Strategy (CAS), the PRSC will support the EGPRSP objectives of:

Improving the Investment Climate. Moldova i s entering a new phase in its economic development where consumption driven growth - based on the export o f labor and inflow o f remittances - can no longer be expected to sustain current growth rates over the medium-term. Sustaining and accelerating future growth and poverty reduction in Moldova will depend on increases in domestic productivity which, in turn , will depend on the extent to which firms and farms address current l o w levels o f investment and innovation. The Government#s agenda focuses on further improving the investment climate for private sector development. These efforts will also directly contribute to Government efforts to improve governance and reduce corruption. Key to Moldova#s efforts to accelerate economic growth and poverty reduction will be improving the performance o f the agriculture sector. Similarly, reducing destabilizing economic impacts o f external energy price shocks w i l l require improvements in energy efficiency.

Improving the Efficiency and Management of Public Resources. Better governance and public institutions are central to growth and poverty reduction. The EGPRSP is conscious of the constraint imposed by the insufficient functional and institutional adaptation of the public administration to the requirements set by the transition from a centrally planned economy to a market economy. The EGPRSP recognizes that establishing a modern and efficient public administration i s necessary in order to achieve the country#s longer-term development outcomes. Increased public investment spending,

particularly in public infrastructure, will be needed in order to support Moldova#s private sector-led growth. This will require enhancing the strategic allocation o f public resources by improving the (Medium-Term Expenditure Framework (MTEF) process, public procurement practices and including better public investment management. Reforms in a number of key sectoral areas can also improve the efficiency o f public resource use, yielding increased fiscal space for more public investment spending without crowding

out the private sector.

Strengthening Pension and Social Assistance Systems. While the recent slowdown in poverty reduction highlights the need to improve the quality o f growth in Moldova, it also points to the need to strengthen existing social safety nets. The Government#s program to improve delivery o f utility, infrastructure and social services is reflected in the EGPRSP. The PRSC would strengthen the effectiveness and future fiscal viability of the pay-as-you-go pension program by supporting efforts to complete the 1999 pension reform, including efforts to unify the pension system for all types o f pensioners.

Improving targeting efficiency of social assistance programs and gaining efficiency in program administration will be a necessary element o f Moldova#s poverty reduction efforts.

PRSC 2, the second in a set of three annual PRSCs, support the Government#s reform efforts as articulated in their PRSP (or National Development Strategy NDS as it is known in Moldova) and the EU-Moldova Action Plan. The Second Poverty Reduction Support Credit (PRSC2) for the Republic of Moldova is intended to bolster and deepen the reform efforts supported by the first PRSC (PRSC1). The proposed credit aims to support Government's efforts to accelerate shared economic growth and improve governance by addressing the efficiency of its expenditure programs and public administration - key elements in poverty reduction. To this end, the proposed PRSC2 will continue to support selective areas of the Government's reform agenda, as outlined in the National Development Plan (NDS) # the successor to the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) - and the European Union (EU)-Moldova action plan. The proposed PRSC2 also complements and reinforces other Bank Group programs in Moldova, the International Monetary Fund (IMF)-supported Poverty Reduction Growth Facility (PRGF) and other donor activities. The PRSC2 will support the Government#s objectives of:

Improving the Investment Climate: The Government#s reform agenda focuses on further improving the investment climate for private sector development. These efforts will also directly contribute to Government efforts to improve governance and reduce corruption. An important element of Moldova#s efforts to accelerate economic growth and poverty reduction will be improving the performance of the agriculture sector. Similarly, reducing destabilizing economic impacts of external energy price shocks will require improvements in energy efficiency.

Improving the Efficiency and Management of Public Resources: Advancing reforms that establish a modern and efficient public administration is necessary in order to achieve the country#s longer-term development outcomes. Increased public investment spending, particularly in public infrastructure, will be needed in order to support Moldova#s private-sector led growth. This will require enhancing the strategic allocation of public resources by improving the Medium-Term Expenditure Framework (MTEF) process, public procurement practices and including better public investment management. Reforms in a number of key sectoral areas can also improve the efficiency of public resource use, allowing for spending reallocation towards public investment.

Strengthening Pension and Social Assistance Systems. The second PRSC would support the Government#s efforts to strengthen the effectiveness and future fiscal viability of the pay-as-you-go pension program by supporting efforts to complete the 1999 pension reform, including efforts to unify the pension system for all types of pensioners. With higher energy and food prices likely to persist for some time to come, improving targeting efficiency of social assistance programs and gaining efficiency in program administration will be necessary elements of Moldova#s poverty reduction efforts.

Revised Program Development Objectives (as approved by original approving authority)

(a) PDO Indicator(s)

Poverty Reduction Support Credit (PRSC) - P099166					
Indicator		**Baseline Value**	**Original Target Values (from approval documents)**	**Formally Revised Target Values**	**Actual Value Achieved at Completion or Target Years**
Indicator 1 :	Real GDP Growth				
Value (quantitative or Qualitative)		7.5%	GDP growth of at least 4.0%		7.8%
Date achieved		12/31/2005	12/31/2007		12/31/2008
Comments (incl. % achievement)	Real GDP in 2007 of 3% fell short of the annual target as a result of the unprecedented drought in Moldova in the summer of 2007				
Indicator 2 :	Inflation (eop)				
Value (quantitative or Qualitative)		10.1%	Inflation of 10.5% in 2007 and in single digits thereafter		7.3%
Date achieved		12/31/2005	12/31/2007		12/31/2008
Comments (incl. % achievement)	Inflation in 2007 stood at 14.1%, overshooting the 10.5% target, as a result of higher energy prices, but fell to single dig it in 2008, as envisaged by the program.				
Indicator 3 :	Overall Fiscal Balance (cash)				
Value (quantitative or Qualitative)		1.3%	-0.5%		1%
Date achieved		12/31/2005	12/31/2007		12/31/2008
Comments (incl. % achievement)	Fiscal stance exceeded IMF program targets as a result of the financial crisis				

Indicator 4 :	Maintain sustainable PPG external debt to GDP ratio (NPV)			
Value (quantitative or Qualitative)	26.4%	Sustainable debt to GDP consistent with macro framework (primary fiscal balance is positive)		22.7%
Date achieved	12/31/2005	12/31/2007		12/31/2008
Comments (incl. % achievement)	Figure derived from the Joint IMF-WB Debt Sustainability Analysis estimates, and deemed sustainable at the time.			
Indicator 5 :	Reduced regulatory compliance cost (management time spent complying with statutory requirements as measured by Cost of Doing Business Surveys)			
Value (quantitative or Qualitative)	17%	reduced	13.8%	
Date achieved	12/31/2005	12/31/2008	12/31/2008	
Comments (incl. % achievement)				
Indicator 6 :	Achieved.			
Value (quantitative or Qualitative)	54% of per capita GDP	Reduced to 30%		18.9%
Date achieved	12/31/2005	12/31/2008		12/31/2008
Comments (incl. % achievement)	Figures derived from the CODB survey.			
Indicator 7 :	Improved Trade Facilitation (reduced physical inspections and reduced average monthly clearance times at inland customs termi nal)			
Value (quantitative or Qualitative)	471 minutes to clear customs; 99.9% physical inspection rate	30 minute clearance time; 30% physical inspect rate.		Physical inspections: Exports - 29.31% Imports - 32.08% Average customs clearance time: Exports: 46.61 minutes Impor ts: 62 minutes
Date achieved	03/30/2004	12/31/2008		12/31/2008
Comments (incl. % achievement)	Targets not achieved.			

Indicator 8 :	Gap between prices received by farmers and international parity price for cereal and oilseed crops (as measured by Nominal Pr otection Coefficient)			
Value (quantitative or Qualitative)	-28% for wheat, -48% for maize and -18% for sunflowers over the 2000-2004 period	Gap reduced by 25% relative to 2005		12% for wheat, 36% for maize, and -33% for sunflowers.
Date achieved	12/31/2004	12/31/2008		12/31/2008
Comments (incl. % achievement)	The target has been achieved for wheat and maize, but has not been met for sunflower seed. CAUSE: Sunflower production still remains a problematic sector with severely depressed producer prices, due to monopolistic processing industry with strong lobbying			
Indicator 9 :	Build meritocratic civil service, with transparent and uniform remuneration system			
Value (quantitative or Qualitative)	Civil service appointments not undertaken in a open, competitive, merit-based selection process. Base pay comprises only 2 5% of total remuneration	New civil servants to administrative posts in ministries and central agencies appointed through an open, competitive process; Base salary makes at least 75-80% of total take-home pay.		New civil servants are appointed through an open tenders - all positions are advertised via the local media. Base salary m akes at 80% of total take-home pay
Date achieved	12/31/2005	12/31/2008		12/31/2008
Comments (incl. % achievement)	Achieved. In addition, information on public sector pay is centrally available for review and analysis.			
Indicator 10 :	Create level playing field for all agricultural support programs by removing all restrictions on access to subsidies and supp orts based on farm ownership structure or size			
Value (quantitative or Qualitative)	Only farms greater than 5 HA eligbile for government support programs. Cooperative form of ownership favored.	Farm size eligibility requirements reduced to 0.5 HA (as agreed with Bank) and all requirements related to ownership structur e removed.		Minimum farm size of 5 hectares still required for vineyard subsidies.
Date achieved	12/30/2005	12/31/2008		12/31/2008
Comments (incl. % achievement)	The Parliament backtracked, after initially accepting to reduce subsidy eligibility criteria to 0.5 HA.			

Indicator 11 :	Increased competition for public procurement			
Value (quantitative or Qualitative)	45% of contracts awarded on sole source basis; 19% of contracts awarded via open tendering (2003 figures)	Sole sourcing at less than 10% of total contracts; Open tendering at 50% by number of contracts and 70% by value.		50.5% of total contracts Sole sourcing at less than 10% of total contracts (71.36% of total value of contracts) awarded th rough open tenders.
Date achieved	12/31/2003	12/31/2008		12/31/2009
Comments (incl. % achievement)	Achieved.			
Indicator 12 :	Implementation of individual Account System			
Value (quantitative or Qualitative)	75 percent of basic data for the implementation of individual account system had not been entered and backlog of more recent data had developed	Individual accounts established for all known pension fund contributors and provision of pensions based on contributions regi stered in the individual accounts begins		Individual accounts established for all known pension fund contributors. Contributions-based pension payments yet to start.
Date achieved	12/31/2005	12/31/2008		12/31/2008
Comments (incl. % achievement)	Partially achieved. Ammendments to Pensions Law have not been completed and draft strategy for unifying the pension system h as not been finalized.			

Poverty Reduction Support Credit 2 (PRSC 2) - P103941				
Indicator	**Baseline Value**	**Original Target Values (from approval documents)**	**Formally Revised Target Values**	**Actual Value Achieved at Completion or Target Years**
Indicator 1 :	Real GDP Growth			
Value (quantitative or Qualitative)	7.5%	GDP growth of at least 4.0%		7.8%
Date achieved	12/31/2005	12/31/2008		12/31/2008
Comments (incl. % achievement)	Real GDP in 2007 of 3% fell short of the annual target as a result of the unprecedented drought in Moldova in the summer of 2007			

(b) Intermediate Outcome Indicator(s)

Poverty Reduction Support Credit (PRSC) - P099166				
Indicator	**Baseline Value**	**Original Target Values (from approval documents)**	**Formally Revised Target Values**	**Actual Value Achieved at Completion or Target Years**
Indicator 1 :	Reduced energy vulnerability (domestic natural gas prices are increased in response to higher imported energy prices and full cost is passed on to final consumers)			
Value (quantitative or Qualitative)	Natural gas price of $80/mcm; tariff at less than cost recovery level	Cash collection ratios above 90% and cost recovery tariff approaches 100%		ToE: 1.39 in 2009. Cash collection rate (2008), Gas # 92.5%, Electricity # 98%
Date achieved	12/31/2005	12/31/2008		12/31/2009
Comments (incl. % achievement)	Targets have been met.			
Indicator 2 :	Improving strategic allocation of public resources			
Value (quantitative or Qualitative)	MTEF does not include information on public investment and is not submitted to Parliament prior to consideration of Budget	Stronger linkage between MTEF and annual budget.		
Date achieved	12/31/2005	12/31/2008		
Comments (incl. % achievement)				
Indicator 3 :	Increased spending on transportation infrastructure			
Value (quantitative or Qualitative)	Total spending on transport infrastructure in 2006 budget was $14 million	Spending from all sources to reach $90 million by 2009.		
Date achieved	12/31/2005	12/31/2008		
Comments (incl. % achievement)				

Indicator 4 :	Efficiency of education spending increased			
Value (quantitative or Qualitative)	Ratio of pupils/teachers = 13 in 2004-2005; Ratio of pupils/non-teachers = 25 in 2004-2005	Pupil/teacher and pupil/non-teacher ratios to increase from current levels.		Pupil/Teacher ratio of 11.6%
Date achieved	12/31/2005	12/31/2008		12/31/2009
Comments (incl. % achievement)	Targets not met.			
Indicator 5 :	Efficiency of health care spending increased			
Value (quantitative or Qualitative)	Primary health care spending accounts for 17% of total health care spending in 2005	Insurance budget allocates 30% of budget to primary health care. 5% of contracts with health care centers directly		
Date achieved	12/31/2005	12/31/2008		
Comments (incl. % achievement)				
Indicator 6 :	Enhance distributional efficiency of social assistance benefit system.			
Value (quantitative or Qualitative)	Categorical targeting system employed. Poorest 20% of population received only 6.6% of benefits while 45% goes to non-poor. Social assistance spending = 9% of GDP	Share of poverty-targeted spending in total social assistance program budget has increased from 18% in 2005.		
Date achieved	12/31/2005	12/31/2008		
Comments (incl. % achievement)				

Poverty Reduction Support Credit 2 (PRSC 2) - P103941					
Indicator		Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :		Reduced energy vulnerability (domestic natural gas prices are increased in response to higher imported energy prices and full cost is passed on to final consumers)			
Value (quantitative or Qualitative)		Natural gas price of $80/mcm; tariff at less than cost recovery level	Cash collection ratios above 90% and cost recovery tariff approaches 100%		Cash collection rate (2008), Gas # 92.5%, Electricity # 98%
Date achieved		12/31/2005	12/31/2008		12/31/2009
Comments (incl. % achievement)		Targets have been met.			

G. Ratings of Program Performance in ISRs

Poverty Reduction Support Credit (PRSC) - P099166				
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	08/22/2007	Satisfactory	Satisfactory	10.28

Poverty Reduction Support Credit 2 (PRSC 2) - P103941				
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	04/28/2009	Satisfactory	Satisfactory	9.83

H. Restructuring (if any)

1. PROGRAM CONTEXT, DEVELOPMENT OBJECTIVES AND DESIGN

1.1. CONTEXT AT APPRAISAL

Political Background

Moldova's transition to a market economy was very difficult, following the deep recession in the aftermath of the Soviet Union dissolution, and the separation of the Transnistria region – the country's industrial base, at the beginning of the 90's. As with many of the post-Soviet economies, independence brought an end to the system of subsidies and transfers from which Moldova benefitted. A second severe economic downturn hit Moldova in 1998-1999 as a result of the regional financial crisis provoked by Russia's default on government debt instruments. By 1999, nearly 70 percent of Moldovans were poor by international standards (i.e. based on international poverty line of $2.15 PPP per day), of which around 60 percent were extremely poor. Moldova's social indicators, a measure of non-income dimensions of poverty, were also considered among the worst in the region.

During the 1990s, international donor intervention (including the World Bank's Structural Adjustment Credits (SACs) and the IMF's Systemic Transformation Facility, the Compensatory and Contingency Financing Facility, and two Stand-By Arrangements) designed to support Moldova's transition to market economy, achieved modest success. The fragile political consensus backing the pro-reform government led to slow and unsatisfactory outcomes of structural reforms. The impoverished population became less enthusiastic about ideological change and brought to power the Communist Party (CP) in 2001. To fulfill some of its electoral promises, the CP followed a more dirigiste approach, creating barriers for business and reversing some accomplishments of the past reform programs. It also showed little interest in implementing the structural reforms advised by development partners. These created a difficult environment for policy dialogue both internally and with the donor community, and led to the suspension of both the IMF program and IDA's SAC 3. With increasing risks of isolation from the international community, the CP changed position in 2005 – just before the commencement of a second term in government, and embraced a pro-European stance and sought closer collaboration with development partners. This provided a re-entry point for the Bank into the policy reform agenda.

Economic Background

Moldova was the last country in the CIS to see a return to positive growth. After falling by more than 60 percent between independence (in 1991) and 1999, cumulative growth of more than 40 percent was recorded between 2000 and 2005 - with average real growth of around 7 percent per annum. The major engine of growth in Moldova has been domestic household consumption and construction fueled by massive inflows of workers' remittances – officially recorded at nearly 31 percent of GDP in 2008. In addition, migration and the inflow of remittances also contributed to increases in the real wage as well as the reservation wage of workers. Moldova was one of the most indebted countries in the region. However, rapid economic growth, together with net repayment to creditors and favorable rescheduling operations resulted in a rapid decline in the ratio of total external debt to GDP – from 106 percent of GDP in 2001 to around 55 percent in 2005. The remittances-financed economic recovery preceding the PRSC series, together with increased government transfers to the population, led to a rapid decline in poverty – between 1999 and 2003, over 37 percent of the population moved out of poverty in Moldova, marking the largest absolute decline in poverty in Europe and Central Asia over this period.

However, despite the good economic performance, the country remained vulnerable to internal and external shocks. Firstly, in late March 2006, Russia's consumer protection agency announced a ban on imports of wine from Moldova. As wine represents 30 percent of Moldovan exports, of which about 80 percent (or 10 percent of GDP) traditionally went to Russia, the ban had a significant negative impact on the economy. Secondly, import prices of fuel and natural gas increased by over 40 percent in 2005 and 38 percent in early 2006, respectively. Given Moldova's complete dependence on imported energy, these fuel price hikes put inflationary pressures on the economy and reduced purchasing power.

Other developments prior to appraisal of the first PRSC.

To focus reform efforts, the government developed the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) – the first full Poverty Reduction Strategy Paper (PRSP) prepared by the Moldovan authorities after broad-based consultations (supervised by a Participation Council) with stakeholders and civil society. The EGPRSP, presented to the Boards of IDA and IMF in November 2004, set three medium-term objectives: (i) sustainable and inclusive economic growth; (ii) reduction of poverty and inequality and increased participation of the poor in economic development; and (iii) human resource development. To achieve these objectives, the EGPRSP advocated a three-pillar strategy: (i) promotion of sustainable and inclusive economic growth; (ii) improved human development; and (iii) strengthened social protection of the most vulnerable groups. In addition, the government's EU aspirations culminated in the adoption of an EU-Moldova Action Plan in May 2005. The Plan covered a wide range of issues, including democratization, health standards, legal reform, and economics. In the economics area, it is consistent with the EGPRSP and includes macroeconomic stability and poverty reduction, improving the investment climate, and trade promotion.

1.2. ORIGINAL PROGRAM DEVELOPMENT OBJECTIVES (PDO) AND KEY INDICATORS

Program Development Objectives (PDOs). The overall objective of the PRSC was to support the Government's economic growth and poverty reduction strategy through selective support to the three development objectives (or pillars) outlined as follows (i) improving the investment climate, (ii) Improving the efficiency and management of public resources, (iii) strengthening pension and social assistance systems.

The specific measures associated with each of these pillars are described in sections 2.1 and 3.2 below (expected outcomes are presented in Annex 1). The original PDOs within these three pillars and the associated key indicators were not revised throughout the PRSC series.

1.3. ORIGINAL POLICY AREAS SUPPORTED BY PROGRAM

The PRSC series focused on three policy areas, in support of the government's reform program:

i. ***Improving the Investment Climate.*** This first pillar recognized that the existing consumption-led, remittances-driven growth was not sustainable, and that future growth and poverty reduction in Moldova would depend on key policy actions to improve the investment climate and foster a more competitive enterprise and farming sector that will ultimately increase domestic productivity. Achieving faster productivity growth, as well as employment generation, was closely linked to the extent firms and farms addressed low levels of investment and innovation, especially in the agriculture sector. Similarly, reducing the destabilizing economic impacts of external price shocks was associated with improvements in energy efficiency and cost recovery of tariffs.

ii. ***Improving the efficiency and management of public resources.*** This second pillar supported reforms that addressed weaknesses in the public sector, by helping the government build a meritocratic civil service, improve the strategic allocation of public finances (with an enhanced focus on pro-growth investment spending on physical and human capital), and increase competition in public procurement. Establishing a modern and efficient public administration was necessary in order to achieve the country's longer-term development outcomes. Increased public investment spending, particularly in public infrastructure, was needed in order to support Moldova's private-sector led growth. This required enhancing the strategic allocation of public resources by improving the medium-term expenditure framework (MTEF) process, public procurement practices, and public investment management.

iii. ***Strengthening Pension and Social Assistance Systems.*** The third pillar focused on pension and social assistance systems (including better targeting of vulnerable groups) to mitigate the slowdown in poverty reduction. The PRSC series aimed to support the Government's reform efforts to strengthen the effectiveness and future fiscal viability of the pay-as-you-go pension program by supporting efforts to complete the 1999 pension reform, including efforts to unify the pension system for all types of pensioners. Improving targeting efficiency of social assistance programs and increasing efficiency in program administration was seen as a necessary element of Moldova's poverty reduction efforts.

These three pillars promoted policy reform previously initiated under the high-case triggers in the 2004 CAS and were aligned with key elements of the reform agenda articulated in the Government's first and second PRSPs (the EGPRSP and the National development Strategy, NDS) and the EU-Moldova Action Plan. The PRSC program was also designed to harmonize multi-donor policy actions and budget support, in line with the Development Partnership Framework signed between the government of Moldova, IDA, the Netherlands, UK DFID, Sweden SIDA, the UN, IMF, and the EU in May 2006. Table 1 illustrates the broad consistency between the NDS, the EGPRSP, EU-Moldova Action plan and the PRSC program.

Table 1. Linkage between the NDS, the EGPRSP/EU Action Plan and PRSC programs

NDS Pillars	EGPRSP/EU Moldova AP	PRSC program
I. Enhancing competitiveness of the national economy	I. Promotion of sustainable and inclusive economic growth	I. Improving the investment climate
II. Building a modern democratic state based on the rule of law	EU-Moldova Action Plan	I. Improving the investment climate
III. Development of human	II. Improved human	II. Improving the efficiency

resources, increasing employment and social inclusion	development	and management of public resources; III. Strengthening social protection systems
IV. Regional development	I. Promotion of sustainable and inclusive economic growth and II. Improved human development	I. Improving the investment climate; II. Improving the efficiency and management of public resources;
V. Settlement of Transnistrian conflict and reintegration		

2. KEY FACTORS AFFECTING IMPLEMENTATION AND OUTCOMES

2.1. PROGRAM PERFORMANCE

Table 2 below lists the prior actions or "triggers", as specified in the associated financing or credit agreements that were taken by the government as the basis for the approval of each of the two credits in the series. Compliance with triggers (or prior actions) in PRSC 1 was verified at the time of Board approval and remains in place. Revisions were made to five of seven PRSC 2 triggers (as originally stated in PRSC 1) to accommodate changes in the government's implementation schedule and the scope of reform. At the time of revision (appraisal of PRSC 2), none of the changes were expected to affect the original outcomes and targets.

Specifically, the revisions include: (i) the measures to reduce regulatory and administrative costs of business regulations were revised because the Parliament broadened this reform effort and required more time for approval and promulgation; (ii) the measure on building a meritocratic Civil Service was revised from "the adoption of the new CS Law", to "government's approval and submission to Parliament the draft Civil Service Law", since the process of parliamentary approval and promulgation had taken longer than expected; (iii) the preparation of the strategy for transport infrastructure management and financing was extended to government's adoption of that strategy because the government approved the strategy ahead of schedule and the budget for road maintenance had been substantially increased; (iv) the measure on education spending which centered on the adoption of a strategy to optimize school networks, was modified to the "drafting" of the strategy, to allow time for broad consultations necessary for developing consensus behind the reform effort; and finally, (v) the completion of the pension reform program through amendments to the Pension Law was revised to the government's adoption and submission of draft amendments to the Parliament, given delays in the parliamentary approval.

TABLE 2. PRSC Core Reforms

PRSC-I (Actions Taken)	PRSC-II (Actions Taken)
Pre-requisite. Maintain Macroeconomic Stability	
• Maintained a satisfactory macroeconomic framework	• Maintained a satisfactory macroeconomic framework
Pillar I. Improving the Investment Climate	
• Adopted a Government decision on Establishment of a Registry of Official Acts Regulating Business Activity based on regulatory review. • Adopted Law on Basic Principles and Mechanisms of State Regulation of Business Activity. • Introduced risk-based selectivity using Asycuda selectivity module at the Chisinau Customs terminal. • Liberalized agricultural exports by issuing and publishing a Government decision making the Universal Commodities Exchange purely voluntary for all commodities.	• Implemented transitional provisions of the Law on Basic Principles and Mechanisms of State Regulation of Business Activity through the Government adoption and submission to Parliament of a draft law covering amendments to 80 laws. • Began implementation of an Action Plan to cover, inter alia, liberalization of the import regime for seeds and seedlings; improvements in agricultural product standardization and certification system; and development of a Market Information System, including scaling up dissemination of cereal and oilseed prices to cover prices on domestic markets.
Pillar II. Improving The Efficiency and Management Of Public Sector Resources	
• Approved a strategy to ensure competitive merit based recruitment of civil servants including procedures for open competition for vacant positions, appointments and a system of civil service appeals. • First phase of the remuneration reform implemented increasing base salary for civil servants. • Created level playing field for all agricultural support programs by removing all restrictions on access to subsidies and supports based on farm ownership structure or size and developing objective and transparent eligibility criteria. • Increased competition for public procurement contracts (decline in single source procurement from 51% to 45% of the value of contracts awarded; increased use of open tendering from 28% to 40% of value of contracts awarded)	• Adopted and submitted to Parliament a draft Civil Service Law that defines the scope of the civil service, contains guiding principles for competitive merit based appointments and promotions, posts classification and grading and institutional responsibilities civil service management. • Adopted strategy for transport infrastructure management and financing, with emphasis on road maintenance, reconstruction and capital repairs that included (i) mechanisms for reform of road financing; (ii) introduction of competition in the execution of road maintenance contracts; and (iii) participation of road users in the oversight of road maintenance financing. • Drafted strategy to optimize school networks, consultations initiated with stakeholders, prepared for piloting the strategy in 2 raions.
Pillar III. Strengthening Social Protection Systems	
• Continue implementation of individual account system by ensuring integrity of 2005 contribution data in NSIH database.	• Adopted and submitted to Parliament draft amendments to pension laws enabling pension payments to be made based on individual pension contributions.

The third and final operation in the series (PRSC 3) scheduled for 2009 was aborted for the following reasons: (a) the IMF PRGF program (covering 2006 – 2008), which was a pre-requisite for the PRSC program, went off-track as the global economic crisis hit Moldova, in part, because fiscal adjustments necessary to keep the program on-track proved unpopular (in view of upcoming elections) and could not be politically supported; (b) a new Government came to power in September 2009 with new policy priorities to address the economic crisis and stimulate recovery; and (c) implementation of PRSC3 prior actions by the outgoing Government was slower than expected – several triggers had not been met. Consequently, a single-tranche USD 25 million Development Policy Operation (DPO) was put in place (approved by the Bank's board in June 2010), to reflect the changed economic and political realities of Moldova. Noteworthy to mention, however, that the spirit of PRSC 3 reform agenda was maintained under the DPO in key areas like agriculture, energy, and social protection. The main difference is that the DPO dropped the longer-term agenda of public sector reform in favor of measures to stimulate private sector-led recovery.

2.2. MAJOR FACTORS AFFECTING IMPLEMENTATION

The implementation of the program of policy and institutional reforms supported by the PRSC series benefitted from these factors:

i. The strong and constructive relationship between the Moldovan government and the World Bank created a solid basis for policy engagement. The Bank's support via the SACs helped the Moldovan authorities address difficult economic episodes. As a result, the Bank – as an international development institution now enjoyed substantial credibility and goodwill in Moldova.

ii. In response to previous implementation experience in the SACs program, the government made key institutional changes, including the creation of (a) an inter-ministerial committee headed by the First Deputy Prime Minister (who later became the Prime Minister) to coordinate the PRSC program. This committee remained in place for PRSC 1 and 2; and (b) a new division – the Department for Policies, Strategic Planning, and Foreign Aid, under the State Chancellery to facilitate monitoring and implementation of prior actions in all donor programs.

iii. In parallel with the PRSCs, the Bank and donor partners provided resources and technical assistance for the implementation of the PRSC reform agenda including the multi-donor trust fund (MDTF) for public administration and civil service reform, and PHRD grants that financed consultants to do technical assistance, analytical work, and monitoring and evaluation associated with the PRSC-supported reforms. Effective coordination among donors also helped optimize the government's limited capacity.

However, implementation was adversely affected by the government's inability to maintain its commitment by garnering enough support in the Parliament (and the Presidency) to move forward in certain areas of the PRSC reform agenda. This occurred for a number of reasons: (a) there were too many policy actions and the government's implementation capacity was overwhelmed trying to move the agenda forward; (b) a number of prior actions (e.g. education reform) were driven by the Bank's analytical work and were too extensive and/or not in tandem with the priority reform areas of line ministries and/or the political economy, even though the series was closely-linked to broad national objectives as set out in the EGPRSP and the NDS; and (c) some business groups and unions expanded their influence on the government (including in the parliament) and were able to use this influence to protect vested interests in certain areas like agriculture.

2.3. MONITORING AND EVALUATION (M&E) DESIGN, IMPLEMENTATION AND UTILIZATION

The set of benchmarks and monitoring indicators initially set out in Annex II of PRSC I (and included in Annex 1 in this document) were drawn from the government's overall development program – the EGPRSP. These indicators were maintained throughout the series. The government's inter-ministerial steering committee, consisting representatives of line ministries, was responsible for gathering evidence on all benchmark and outcome indicators for the PRSC, the EGPRSP, the Moldova-EU Action Plan, and the MTEF. This committee was assisted by a PHRD-funded technical committee. While the National Bank of Moldova (NBM) and the National Bureau of Statistics (NBS) supplied information of macroeconomic performance, the annual report on the EGPRSP produced by the government served as a key instrument for monitoring PRSC progress given closely aligned targets.

The M&E conducted during the PRSC series fed back into the program design in two areas: (i) scaling back the timetable (and scope) of a number of policy actions, as discussed in Section 2.1; and (ii) broadening the scope of reform in transportation infrastructure management and the investment climate. On the other hand, M&E was less informative of program outcomes. Targets and indicated outcomes should have been revised alongside the policy matrix, in line with the realities of program implementation.

2.4. EXPECTED NEXT PHASE/FOLLOW-UP OPERATION

The single-tranche DPO of USD 25 million approved by the Bank's Board of executive directors in June 2010 supported the new government's "Economic Stabilization and Recovery Plan (ESRP) for 2009 – 2011". The Plan included measures aimed to (a) cut inefficient and low-priority public spending; (b) help businesses to withstand the economic slow-down and emerge less-burdened by public administrative requirements; and (c) protect vulnerable households from a drop in consumption due to the recession and fiscal contraction. Specifically, the DPO prior actions were aligned with (b) and (c), consolidating the reform gains of the PRSC series in improving the investment climate, energy reform, road maintenance, redirection of agricultural subsidies towards investment, and better targeted social assistance,

Parliamentary Elections were held in November 2010, but no single party won enough seats to form the government. The new Parliament approved a three-party pro-Europe coalition government very similar to the previous government in January 2011. However, the new coalition controls 59 votes in Parliament, two short of the minimum needed to elect a new president; hence the constitutional crisis that has rocked Moldova over the last two years remains unresolved. While the formation of a new government allows the Bank to resume formal dialogue on the overall development agenda, engagement on long-term policy priorities is made difficult by the current political logjam.

3. ASSESSMENT OF OUTCOMES

3.1. RELEVANCE OF OBJECTIVES, DESIGN AND IMPLEMENTATION

The overall reform program supported by the PRSC series was relevant to the development challenges facing Moldova during this period, and remains relevant. The PRSC appropriately focused on economic growth via improving the investment climate and improving the efficiency of social assistance and public administration – all key elements in the reduction of rural and urban poverty. The PRSC program was closely aligned with the 2004 EGPRSP and the NDS of 2007. The close link between the PRSCs' policy actions and those of the recently-approved DPO is further evidence of the continued relevance of PRSC objectives. Even retrospectively, the broad agenda of the PRSCs is supportive of the three Pillars of the Bank's Country Partnership Strategy for 2009 to 2012.

On operation design, the choice of the PRSC instrument was appropriate in the Moldovan context at the time of approval. It provided much needed balance to the Bank's engagement given the unfinished policy reform agenda of the SACs program, the need for flexibility due to the government's implementation track record, and the need to leverage donor resources effectively. The balancing of the PRSCs and other bank/donor operations (including investment lending) was notable, and collaboration and coordination with donors like DFID, SIDA, PHRD, and the EU was laudable. In many areas such as, reducing energy vulnerability, improving public financial management system, roads maintenance, and public procurement, the PRSCs provided support for policy changes and capacity building, whilst Bank or donor-funded investment operations provided financing for infrastructure and technical assistance. Finally, in portfolio terms, the amounts of IDA resources committed to the PRSCs (under 20 percent of total CAS lending) seems sufficient to incentivize the government on policy reform, but not so large as to crowd out investment lending and other operations.

However, some elements in the PRSCs policy matrix were driven by the Bank's diagnostics of the binding constraints to growth and development in Moldova and the political economy was given insufficient consideration**.** The choice of indicators was, for the most part, reasonable, but there were instances when monitoring indicators and expected outcomes were difficult to measure, and were unrealistic. In several cases (e.g. PRSC 2 triggers), Bank staff responded with commendable flexibility to the political constraints that slowed-down policy reform by formally delaying the implementation schedule. Unfortunately, this meant that in certain areas, the aborted PRSC 3 operation carried the bulk of reform steps to achieve targets and indicated outcomes that remained unchanged throughout the series. Overall, the PRSC program is ***relevant***.

3.2. ACHIEVEMENT OF PROGRAM DEVELOPMENT OBJECTIVES

Between 2006 and 2008, the macroeconomic framework was consistent with the core objectives of the PRSC series. The government maintained fiscal balance with a modest deficit – 1% of GDP by the end of 2008 (period average of 0.5% GDP). However, budget performance was driven more by buoyant revenues (on the back of robust VAT on remittances-funded imports) rather than by expenditure restraint. Real GDP grew at an average annual rate of 5.2% - higher than the minimum 4% target of the Program, in spite of significant external shocks i.e. higher energy prices and the Russian ban on Moldova's main exports in 2006, and the unprecedented drought in the summer of 2007. Inflation rose initially on the back of higher energy prices – to 14.1% in 2007, above the Program's target of 10.5%, but fell within single-digit territory as energy prices fell – 7.3% by the end of 2008 as envisaged by the program. Public and Publicly-

Guaranteed external debt to GDP fell to sustainable levels – from 26.4% in 2005 to 15.7% by the end of 2008. After the program closed, the economy contracted by 6.5% in 2009 due to the drastic fall in consumption, investment expenditure, and remittances as a result of the global economic crisis; and inflation fell to zero percent. The expectation for 2010 was a rebound in remittances and return to positive growth of about 2.5 percent.

Pillar I: Improving the Investment Climate

A. Reducing Regulatory and Administrative Costs of Business Regulations.

The PRSC program supported a comprehensive review (and subsequent withdrawal) of executive regulations that affect foreign investment and the competitiveness of Moldovan firms, and included the introduction of the Law on Basic Principles and Mechanisms of State Regulation of Business Activity (also known as "Guillotine"), which amended over 80 Laws covering business entry, exit, licensing, and operations. This Law came into effect in 2008. Furthermore, Regulatory Impact Assessment (RIA) has become mandatory for all new regulations affecting business – RIA units were created in government ministries and agencies to implement this. As a result of these actions, the percentage of management time spent complying with the government's regulatory requirements has reduced from 17% in 2005 to 13.8% in 2008, and 11.2% in 2009 (according to the CODB survey). Average firm licensing and authorization costs also fell below the program's target of 30% of per capita GDP, to 18.9% by the end of 2008, and to 13.3% by the end of 2009. A new draft Law on Competition Protection under preparation by the government will assure the sustainability and deepening of these efforts. Therefore, the expected developmental outcomes ***have been achieved***.

B. Improving Trade Facilitation.

The reforms envisioned under the PRSC to reduce inefficiency at the Moldovan Customs Service (MCS) and costs of cross-border trade, have been completed through (i) aligning legislation and regulations to EU standards, (ii) the implementation of risk-based (ASYCUDA) selectivity, and, (iii) the establishment of a system of customs border and clearance performance indicators. However, while significant improvements have been made, development outcomes expected under the PRSC ***have not been achieved***. As at December 2008, the proportions of physical inspections for exports and imports were 29.31% and 32.08% respectively, slightly short of the 30% target. The average customs clearance time for exports and imports 46.61 minutes and 62 minutes respectively, also fell short of the 30 minute target.

C. Developing Agricultural Markets.

As envisaged by the PRSC program, the gaps between farmgate prices and international parity prices were reduced through the elimination of the requirement that commodities (particularly cereals) pass through the de facto monopsony – the United Commodities Exchange, and the dissemination of information on international prices of cereals and oilseeds in the local media. The target 25% reduction in the gap between farmgate and international prices, relative to 2005, were attained for wheat and maize but not for sunflower seed (as at December 2008). Producer prices for sunflower remain severely depressed, due to the strong lobbying power of the monopolistic processing industry that limits export opportunities for individual farmers. In addition, the government occasionally banned exports of agricultural products during the PRSC period, depressing local prices. Therefore, the expected outcome is ***partially achieved***.

The implementation of the Action Plan for developing agricultural markets – which included (i) the development of a Market Information System, (ii) the liberalization of the import regime for seed and seedlings, and (iii) accelerated test periods for annual and perennial crops in the EU common catalogue to 1 year and 4 years respectively – yielded the desired results. Domestic and international grain price information are now collected and disseminated by the Ministry of Agriculture and Food Industry (MAFI) and the state rural extension service, as well as by other partners (rural NGOs and farm organizations), on a weekly basis. The number of new varieties registered by the National Board for Plant Varieties grew to 233 in 2008, up from 179 in 2007 and 111 in 2006. Thus, the two-year increase in the number of new varieties has accounted for 110% - much higher than the 25% target increase. The government also adopted and implemented the Law on Savings and Credit Associations. Therefore, expected outcomes ***have been achieved***.

Overall, poverty in Moldova decreased, but improvements are restricted to urban areas (see Section 3.4). Rural agricultural productivity and farm profits declined between 2006 and 2009, and several thousand rural workers emigrated abroad. Russia's ban on wine exports in 2006 and the drought in the summer of 2007 also had significant negative effects on rural income. Hence the PRSC's objective of improving rural poverty headcount ***has not been achieved***, although it is doubtful whether associated policy measures could have single-handedly delivered rural poverty reduction.

D. Reducing Energy Vulnerability.

The achievement of energy outcomes is as follows:

(i) The objective to increase energy efficiency through a reduction in energy intensity, and increase cash collection ratios above 90% for natural gas and 95% for electricity ***have been achieved***. Energy intensity, as measured by the ratio of total primary energy consumed to real GDP (lei) decreased from 1.80 in 2005, to 1.39 in 2009 – a 23 percent reduction. Cash collection ratios have also increased: gas – 92.5%, and electricity – 98% in 2008.

(ii) The objective to ensure that cost recovery of gas, electricity, and heat tariffs for all categories of consumers approaches 100% ***has been achieved***. Tariffs were increased fully to cost-recovery levels under the PRSC program, except heating tariffs in Chisinau which were raised to cost recovery levels in early 2010 under the DPO..[1]

(iii) To ensure that the regulatory framework in the electricity market is compatible with relevant provisions of the ECSEE Treaty and the EU electricity directives has been partially achieved. The government submitted a draft Energy Law to the Parliament in December 2008. Upon review, the Bank team noted that the Law did not adequately address the issues indicated in the triggers. As a result of the review, the draft Law was revised and re-submitted to the Parliament in April 2010, as part of the prior actions of the DPO. The new Law was passed by the Parliament, in full compliance with the EU Directives on Electricity and Gas (as assessed by EU experts). Secondary legislation is expected to be completed under the European

[1] Noteworthy to mention that tariffs are not yet in full compliance with Bank-supported methodology for setting tariffs. ANRE, the national energy regulator, is committed to full compliance starting January 2011.

Energy Community Treaty (ECT), of which Moldova became a full member in May 2010..

(iv) To ensure that energy as a share of household expenditures is reported by the Household Budget Survey (HBS) has not been achieved. The HBS does not report energy specifically as a household expenditure item – it does provide only dwelling maintenance data.

Pillar II: Improving the Efficiency and Management of Public Sector Resources.

A. Building a meritocratic civil service.

A new Civil Service (CS) Law promoting open, competitive and merit-based recruitment as the core of civil service reform was promulgated by the presidency in December 2008 and entered into force in January 2009; the process of implementation is underway. The regulation on the procedure for competitive recruitment has been revised (by SIGMA – a program financed by the European Commission and the OECD) in line with the new law. Though developed, the system for the classification and grading of civil service posts is not functional yet in the absence of underlying regulations. Implementation was also delayed on the Bank's advice - the Bank team expressed the view that implementation should be delayed until after elections in 2009 should the new government introduce further reorganizations.

The automated CS Register is not functional as expected but good progress has been made. The government announced a tender for the development of the application software for the Civil Service Registry in December 2008. Bids for the CS register itself were opened in August 2010. Despite the delays in the implementation of the overall program, the development objective of the PRSC series ***has been achieved***. About 30 percent of new civil servants were appointed through a competitive, merit-based process in 2007 even in the absence of the Civil Service Law. At present, all government ministries and agencies publicly advertise vacancies via local media – an improvement from pre-PRSC era.

B. Implementing a transparent and uniform remuneration system for civil servants.

The PRSC's goal of developing a uniform pay system for the civil service ***has been achieved*** even as policy measures have not been fully implemented. As at the end of 2008, base salary as a percentage of total remuneration was 80% (target of the series is 75-80%) and information on the public sector pay was centrally available for review and analysis, as envisaged. Work on a new civil service classification and grading system commenced under PRSC 2, but has not been finalized and implemented, as the foreseen new Law on civil service remuneration – planned under PRSC 3---remains under preparation today. In the meantime, public sector wages have been frozen until 2012 under the IMF program now in place.

C. Improving the strategic allocation of public resources.

A stronger link between the Medium Term Expenditure Framework (MTEF) and annual budget laws has ***been achieved***. The government approved the MTEF concept document (2009 – 2011) containing medium-term policy priorities consistent with the NDS to guide the budget process. However, ***no significant progress*** has been made in the implementation of the Project Identification Form (PIF) database introduced under PRSC 2, to enable better prioritization, preparation, and appraisal of public investment projects. There is no evidence to support increased use of the PIF and awareness of economic cost-benefit analysis in the public sector. The absence of a measureable indicator makes it difficult to assess whether the quality of funded public-investment projects has improved.

C.1. Agricultural Spending

The objective of the series was to streamline government support for the agricultural sector through the elimination of debt write-offs, the reduction in recurrent subsidies especially to large farms, and an increase in peasant farmers' share of subsidies. This objective has ***been partially achieved***. While there are no new debt write-offs, other objectives have not been achieved due to the poor implementation of the reform agenda. The PRSC's proposal – to remove all restrictions on access to subsidies based on farm ownership structure or size, and develop objective and transparent eligibility criteria – was initially accepted by the Parliament. However, the Parliament later back-tracked and re-instated farm-size classification. Increase in the share of subsidies going to peasant farms has not materialized as planned. In 2008 and 2009, individual farmers received only 10% of total subsidies, which is only a 1 percent increase as compared to the 2006 level. While the planned subsidy budget was usually in line with PRSC commitments, the actual subsidy amount paid to farmers always exceeded the planned amounts, due to higher-than-expected claims on VAT refunds. Therefore, the share of agricultural expenditures on subsidies relative to services did not decrease during 2006-2009 as expected under the PRSC. The share of subsidies in 2006, 2007, 2008, and 2009 were 73.4%, 76.7%, 73.1%, and 69.2% respectively, falling short of PRSC's target reduction of "3 percentage points in 2007 and 5 percentage points every year thereafter".

C.2. Transportation Infrastructure

The government's implementation of prior actions on transport infrastructure was quicker than anticipated – it prepared and adopted a transportation infrastructure strategy that channeled 80% of excise tax on fuel in 2009 (and 100% subsequently) into road maintenance. Amounts devoted to road maintenance fell short of the minimum MDL 450 million expected in 2009 budget, however. Road maintenance allocation for 2009 was only MDL 242 million, but this increased to MDL582.9 million in the 2010 budget – the increase was one of the prior actions of the 2010 DPO. Though it increased from USD 14 million in 2006, the amount of MDL 515 million (about USD 46 million) earmarked for major road rehabilitation in 2009 fell short of the USD 90 million objective in the PRSC. To this end, the objective of the PRSC ***has been partially achieved***.

C.3. Education Spending

Improving the efficiency of Moldova's public spending on education was a primary objective of the PRSC series, with results measured by increasing the student/teacher and student/non-teacher ratios from 12.7 and 24.9 (in 2005), and increasing the share of expenditures on non-wage quality related items. The Ministry of Education and Youth (MEY) completed the draft strategy to optimize school networks, but the strategy required substantial revisions. The draft strategy has now been finalized and endorsed by the Bank, while piloting of the strategy in two raions is currently under way. However, expected outcomes ***have not been achieved*** – the national average of the ratio of pupils to teachers is 11.6 in 2009, even lower than in 2005, and the share of expenditures on non-wage quality related items has not increased. Though implementation was slow, increasing national student/teacher ratios will require more than piloting in two raions. So the expected outcome was unrealistic.

C.4. Promote efficiency of health care spending.

Under the PRSC, the government adopted procedures for direct contracting with autonomous primary care providers to increase efficiency and transparency in the health sector. As a result, the government's health insurance company extended direct contracting to all regions of the country – surpassing the target of at least 5% of primary care centers expected under PRSC 3. In addition, the government passed a resolution to separate the management of primary care centers from rayonal hospitals in 2008. All managers of primary health care centers in the country are now competitively selected, surpassing even PRSC 3's objective of at least 25%. The expected outcome ***has been achieved*** – the government increased primary health care allocation from 17% of total health spending in 2005 to 30.9%, slightly surpassing the 30% target.

D. Public Procurement

Competition for public procurement contracts has increased while the use of sole source contracting declined since 2005 as mandated under PRSC 1. In 2009, about 50.5% of total contracts (71.36% of the total value of contracts) were awarded through open tenders, whereas less than 10% of contracts were procured through single sourcing. Hence, the target set under the PRSC i.e. no more than 10% of contracts awarded through single sourcing, and at least 50% of total contracts (and 70% of total value of contracts) awarded by open tender – ***has been achieved***. The Public Procurement Agency (PPA) also publishes (on its websites) an annual public report on the conduct and results of public procurement, as required.

Pillar III: Strengthening Social Protection Systems

A. Completing Pension System Reform Program

The PRSC series aimed to establish individual accounts for 100 percent of all-known pension fund contributors, and increase the correlation between pension payments made and individual pension contributions. The government cleared data entry backlog of individual contribution in the computerized contributions database. New data is now being entered on a continuous basis therefore the objective of establishing individual accounts for 100 percent of all-known pension fund contributors has been achieved. However, the correlation between contributions and expenditures for all types of pensioners has not really increased, since contributions-based pension payments have not yet started. Though some progress has been made, relevant secondary amendments to the Pensions Law have not been completed, and the draft Strategy for unifying the pension system has not been finalized. Therefore, expected outcomes ***have been partially achieved***.

B. Enhancing the Distributional Efficiency of Social Assistance Benefit System.

The government approved a draft Law on Targeted Social Assistance which established the legal basis for targeting poor Moldovans. Non-targeted social assistance programs were eliminated in 2009. The government also completed the system concept design for a unified database of the beneficiaries of cash-equivalent social assistance programs. Bidding documents for the computer system have been approved, and bids opened in September 2010. Regardless, the status of the expected outcome of the PRSC series – i.e. an increase in the share of poverty-targeted (i.e. means-tested) social assistance program budget in the total social assistance from 17.7% in 2005 – ***cannot be properly evaluated***, since means-testing did not exist in 2005. Categorical benefits were the main instruments of the social safety net in the pre-PRSC era; hence it is not certain how the baseline figure of 17.7% was obtained. Means-testing, introduced in 2008, stood at 2% of GDP in 2008 (or 9.5% of social safety net budget). A number of measures on improving social assistance targeting, originating from the PRSC, were re-introduced under the DPO. Under the program, it is expected that the share of social assistance benefits going to the poorest 20% of the population will increase from the estimated 28% in 2008 to at least two-thirds by 2010.

Overall, the achievement of objectives of the PRSC program is ***moderately satisfactory***. In each of the three thematic areas, Moldova made substantial progress. Several PRSC objectives and expected outcomes were substantially or partially achieved (see Annex 4). Few were not achieved. As noted in the government evaluation report (Annex 6), nearly 80 percent of PRSC measures were achieved, even though the few not achieved (e.g. pension reform, education reform, and agriculture spending) were very important with major social and economic impact. The cancellation of plans for PRSC 3 slowed reform momentum, and this weighed heavily on the achievement of desired objectives and targets in many areas.

3.3. JUSTIFICATION OF OVERALL OUTCOME RATING

Given that relevance of the program supported by the PRSCs is rated as satisfactory and the achievement of program development objectives is rated as moderately satisfactory, ***the overall outcome rating is rated as moderately satisfactory.*** .

3.4. OVERARCHING THEMES, OTHER OUTCOMES AND IMPACTS

A. Poverty Impacts, Gender Aspects and Social Development

Moldova's strong growth performance and the associated rise in real incomes played a critical role in poverty reduction. According to the government's Poverty Assessment Report (2010), absolute poverty in Moldova fell from 30.2 percent in 2006 to 26.3 percent in 2009. Extreme poverty has also declined, falling from 4.5 percent in 2006 to 2.1 in 2009. Likewise, the depth of absolute poverty, measured by the poverty gap, also fell from 7.9 percent in 2006 to 5.9 percent in 2009. Remittances played a significant role in overall poverty alleviation - according to the 2008 HBS data, 88 percent of the poor in the country do not have households' members abroad and do not receive remittances. Richer households are getting remittances coming from Russian, Ukraine, and the EU. Poverty rates among households with migrant workers are 14.3 percent, but 22 percent among non-migrant households.

Some PRSC measures – for example, the development of agricultural markets (under Pillar 1) – specifically focused on reducing rural poverty by ensuring that poor farmers received higher prices for their crops. Yet, rural poverty in Moldova has increased: from 31.4 percent in 2006 to 36.3 percent in 2009. Any positive impact of the PRSC measures could have been obscured by external factors like the drought in 2007, the food crisis in 2008, and the global economic downturn which led to (i) an 18.5 percent fall in average selling prices of farming goods in 2009, and (ii) a 19 percent decline in remittances to rural areas in 2009. The policy measure – aimed at better targeting social assistance payments to the poor through means-testing also made some contributions to poverty alleviation. The government's Poverty Assessment Report (2010) acknowledges that social benefit payouts to the poor went up in rural settings in 2009, mitigating to some extent the effects of the economic crisis. Broadly speaking, better implementation of PRSC policy measures (especially agricultural spending) could have improved outcomes on rural poverty.

None of the PRSC-supported programs were specifically directed toward gender issues.

B. Institutional Change/Strengthening

The PRSC program had an impact on institutional reform in the areas of policy coordination, trade facilitation, business regulation, civil service management, public financial management (MTEF), procurement, roads maintenance, and pensions and social assistance. In some of these cases, implementation has not been finalized hence reform efforts must be raised and maintained. In essence, institutional changes must be closely-monitored to sustain attained or expected benefits.

C. Other Unintended Outcomes and Impacts

None.

4. ASSESSMENT OF RISK TO DEVELOPMENT OUTCOME

Moldova's prospects for sustaining the developmental objectives of the PRSC (where achieved), face various risks, including: external shocks and financial sector risk; political uncertainty given recent failure to elect a president; strong lobbying pressure to protect vested interests; and limited institutional capacity.

Moldova is vulnerable to external market developments. Import price of natural gas will continue to rise to European levels over the next five years, with significant consequences for the poor. Any Russian ban on the export of wine and alcoholic beverages may create current account imbalances beyond the sustainable levels, putting fiscal pressure on the government's social safety nets. Rising non-performing loans and declining risk appetite in financial intermediation has limited access to much-needed funds for investment.

The failure to elect a president has intensified the power struggle between major political powers and there is a risk that the reform agenda, which includes several politically-sensitive policy actions, will not be finalized. Similarly, the risk of reversals in previously implemented policies is also significant if powerful vested interests that distort business competition and reform in public financial management exert pressure on a new government. Such policy reversals could also jeopardize donor assistance. Finally, government's institutional capacity remains weak and this could limit implementation of the NDS agenda.

However, risks will decline in the medium to long-term, if global economic recovery gathers momentum, and international donors continue to support the government's institutional capacity via technical assistance. Economic prospects will also improve if the incoming government adheres to the IMF's macroeconomic framework. The current EU-Moldova Action Plan will also help mitigate risks. Overall, the risk to development outcomes in Moldova is rated is **moderate**.

5. ASSESSMENT OF BANK AND BORROWER PERFORMANCE

5.1. BANK PERFORMANCE

A. Bank Performance in Ensuring Quality at Entry

Rating*: Moderately Satisfactory*

At conception of the PRSC series, the Bank took positive steps to incorporate key lessons learned under the previous poorly-implemented SACs program. Firstly, intervention through policy-based lending was anchored on an evaluation of the government's commitment to reform (i.e. the attainment of high-case triggers in the 2004 CAS). Secondly, more efforts were made to ensure country-ownership of the reform agenda, unlike in the SACs program which was largely driven by Bank staff. The Bank aligned the PRSC with the priorities of the 2004 EGPRSP – the government's framework for tackling developmental challenges. Proposed policy actions were also supported by a plethora of analytical work by the Bank and other donors to ensure their positive impact on the developmental objectives. Thirdly, the PRSC series was broad-based covering several sectors, and the Bank's active engagement on so many policy areas would not have been feasible in the absence of complementary activities in its investment lending and AAA program. This arrangement provided some synergies. Fourthly, the Bank mobilized substantial resources for much-needed technical assistance and capacity building through close collaboration with donor partners in the development of the PRSC series. Finally, the Bank performed well in terms of synchronizing its appraisal and approval of the PRSCs with the government's budget cycle so that the PRSC credits could be taken into account in the preparation of government's fiscal plans.

On the downside, the political economy was not well-understood by the Bank team at the time of entry. In some cases like agriculture spending and social assistance, Bank-supported reform action exceeded the depth and scope envisaged by government's program. Therefore, the actual political and technical capacity to implement its own program was weak. In addition, the program was too broad in view of the government's limited capacity. Choice of indicators was, for the most part, reasonable, but there were instances when monitoring indicators and expected outcomes were difficult to measure. For example, it is not clear how to measure the stated outcome – "improvements in the quality of public investment projects selected for funding". In some cases, the expected outcomes were unrealistic, as under education spending, where the expected outcome was an "increase in student/teacher and student/non-teacher ratios from 12.7 and 24.9 (in 2005) for public general schools in Moldova". However, the associated policy action was "the finalization of the schools optimization strategy and begin piloting in *2 pilot raions*".). Surely, achieving the stated outcome will require more than piloting in two raions. Similarly, policy measures do develop agricultural markets were too weak to deliver an improvement in rural poverty headcounts.

B. Quality of Supervision

Rating*: Moderately Satisfactory*

The quality of the Bank's supervision effort was satisfactory in a number of respects. Firstly, the Bank's supervisory role was well-tailored to the challenges of the reform agenda and allowed the optimal use of the program's flexibility in reshaping the policy matrix to the realities of implementation progress. It effectively informed the decision to abort PRSC 3 and introduce a new DPO which maintained the spirit of PRSC 3. Secondly, the Bank maintained a high degree of continuity among staff engaged on the PRSCs ensuring some efficiency. In addition, the coordinated approach followed by PREM and sectoral staff contributed to sound supervision. However, the major drawback is that the outcome of supervision was not well-reflected in the program's results framework. Targets and expected outcomes should have been revised in line with the realities of implementation. .

C. Justification of Rating for Overall Bank Performance.

Given the ratings for quality at entry and quality of supervision, discussed above, the Bank's performance is evaluated as ***moderately satisfactory***.

5.2. BORROWER PERFORMANCE

A. Government Performance

Overall the government's performance was ***moderately satisfactory***. Prior to PRSC design, the government appeared committed to reform with strong performance on CAS 'high-case' triggers. As discussed in Section 3.2, some PRSC policy measures were not fully implemented and a few targets were not met. Several modifications were made to the policy matrix and the sequencing of policy actions to reflect this. While institutional changes (i.e. the establishment of a policy coordination unit) and the creation of an inter-ministerial committee to monitor and evaluate the process are commendable, reneging on previously-agreed policy measures (and scope) and the implementation timeframe poses significant threats to serious reform and the attainment of developmental objectives. Furthermore, in certain circumstances (e.g. agriculture), the government was inefficient in utilizing donor-funded technical assistance and other support at its disposal.

B. Implementing Agency or Agencies Performance

There is no reason to distinguish between overall government performance and the performance of the implementing agency.

C. Justification of Rating for Overall Borrower Performance

In light the above, the borrower's performance is evaluated as ***moderately satisfactory***.

6. LESSONS LEARNED

The following lessons were derived from the PRSC series and should be taken into consideration in designing future development policy operations in Moldova:

i. **The political economy must be understood and given due consideration because it affects the capacity of the authorities to implement their own program.** Experience under the PRSC series highlights the importance of a country's political structure for implementation of donor programs. In this instance, the World Bank team negotiated the PRSC policy matrix with the government – including several policy measures requiring legal amendments. However, in reality, the passage of legislation rests with the Parliament, which is outside the control of the government. Going forward, the government's limitation in negotiating legal amendments within the policy reform agenda must be recognized. Policy reform measures requiring legal amendments should have broad country ownership and could involve upfront consultations with key stakeholders, including Parliament.

ii. **The size and complexity of the policy matrix must be reasonable, and feasibly-balanced with the government's program and institutional capacity.** Even with the availability of donor-funded technical assistance, a large and complex policy matrix that simultaneously supports several aspects of the national program and involves virtually all government ministries – like that of the PRSC series – is difficult to co-ordinate and implement. Policy matrices of budget support operations must be kept simple, based on prioritized policy-actions, and focused on realistic targets.

iii. **A strong focus on the results framework facilitates stock-taking of achievements during program implementation.** The program matrix including the set of indicative outcomes facilitated the assessment of progress, provided a sound basis for and policy dialogue.

iv. **The Bank can play a strong role in mobilizing budget resources from the donor community to fund the program and conduct technical assistance for successful implementation.** Close donor collaboration on a common policy framework – like the PRSC – significantly reduces transaction costs imposed on the government implementation. In addition to co-financing from DFID, and the Netherlands, other donors like the PHRD provided important technical assistance to build capacity in key areas supported by the PRSC series, thereby allowing greater efficiency in the use of donor resources, and more effectiveness in responding to the country's needs.

v. **Complex lending operations require strong field presence and cross-sector collaboration by the Bank team**. In an environment where implementation capacity is weak, operations like the PRSC series require day-to-day supervision and strong cross-sectoral collaboration within the Bank on the policy agenda to deliver the expected outcomes of the lending program.

7. COMMENTS ON DRAFT ICR BY BORROWER/IMPLEMENTING AGENCIES

(SEE ANNEX 2 FOR FULL TEXT OF BORROWER'S ICR)

8. COMMENTS FROM COFINANCIERS ON THE DRAFT ICR

(a) Comments from DFID (Full text)

The United Kingdom (DFID) supported the PRSC series by its commitment of £3 million to the multi-donor trust fund confirmed under the DFID/World Bank arrangement of 7 March 2007. From this commitment an amount of £2.5 million was transferred against PRSC's 1 and 2. The balance of £0.5 million could not be transferred because of the cancellation of PRSC 3.

DFID support for PRSC complemented its bilateral programme to Moldova which included support for Government efforts at Public Administration Reform and establishment of a poverty focused social assistance mechanism. The opportunity for DFID to contribute to PRSC was welcomed as a way to minimize DFID's internal administration commitments in its bilateral programme management and also to reduce transaction costs in the Government's relationship with the donor community. The donor harmonization agenda formalized under the Development Partnership Framework was also an important consideration.

DFID agrees that the rating of the PRSC series of "Moderately Successful" was appropriate for this operation. The policy matrix as originally designed was over-ambitious and did not recognize the complex political economy of public sector reform in Moldova and therefore some modifications were required to the expected results. The shrinking fiscal and economic space from 2008 onwards greatly constrained reforms in some areas. The ICR correctly records a mixed picture of success with strong commitment apparent within triggers on energy reform and procurement but less impressive on civil service reform, agriculture and education. DFID considers reform of the distribution of social assistance benefits to have been largely successful although the parallel operation of the nominal compensation system has limited the effectiveness of the reform.

Annex 1: Bank Lending and Implementation Support/Supervision Processes

Task Team members

P099166 - Poverty Reduction Support Credit (PRSC)			
Names	**Title**	**Unit**	**Responsibility/ Specialty**
Lending			
Supervision			
Irina Astrakhan	Country Program Coordinator	AFCS1	
Iaroslav Baclajanschi	Economist	ECSP3	
Sandu Ghidirim	Operations Officer	ECSS2	
Rekha Menon	Senior Economist	ECSH1	
Hideki Mori	Program Manager	HDNSP	
Elena Nikulina	Senior Public Sector Specialist	ECSP4	
Dejan R. Ostojic	Sector Leader	EASIN	
Susana M. Padilla	Program Assistant	ECSPE	
Ala Pinzari	Operations Officer	ECSH2	
Svetlana I. Proskurovska	Senior Public Sector Specialist	ECSP4	
Ana Maria Sandi	Consultant	ECSHD	
Andreas Schliessler	Lead Transport Specialist	ECSS5	
William R. Sutton	Senior Agriculture Economist	ECSS1	
Erwin H. R. Tiongson	Senior Economist	ECSP3	

P103941 - Poverty Reduction Support Credit 2 (PRSC 2)			
Names	**Title**	**Unit**	**Responsibility/ Specialty**
Lending			
Supervision			
Irina Astrakhan	Country Program Coordinator	AFCS1	
Iaroslav Baclajanschi	Economist	ECSP3	
Andrei Busuioc	Financial Management Specialist	ECCAT	
Sandu Ghidirim	Operations Officer	ECSS2	
Asa Margareta G. Hoglund Giertz	E T Consultant	ECSS1	
Rekha Menon	Senior Economist	ECSH1	
Elena Nikulina	Senior Public Sector Specialist	ECSP4	
Dejan R. Ostojic	Sector Leader	EASIN	
Susana M. Padilla	Program Assistant	ECSPE	
Ala Pinzari	Operations Officer	ECSH2	
Svetlana I. Proskurovska	Senior Public Sector Specialist	ECSP4	
Andreas Schliessler	Lead Transport Specialist	ECSS5	
William R. Sutton	Senior Agriculture Economist	ECSS1	
Erwin H. R. Tiongson	Senior Economist	ECSP3	
Anna L Wielogorska	Senior Procurement Specialist	EAPPR	

a) Staff Time and Cost

P099166 - Poverty Reduction Support Credit (PRSC)		
Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY06	56	245.84
FY07	23	83.98
Total:	79	329.82
Supervision		
FY06		0.00
FY07	23	86.63
Total:	23	86.63

P103941 - Poverty Reduction Support Credit 2 (PRSC 2)		
Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY07	28	179.51
FY08	57	173.91
Total:	85	353.42
Supervision		
Total:		0.00

Annex 2. Summary of Borrower's ICR and/or Comments on Draft ICR

Insert Borrower's ICR Report

Annex 3. List of Supporting Documents

Internal World Bank Documents

Moldova PRSC I: Identification Mission and Public Finance Review Mission, Dec 2005
Moldova PRSC I: BTOR of Identification Mission, December 22, 2005.
Moldova PRSC I: Minutes of Concept note Review Meeting, February 22, 2006
Moldova PRSC I: PRSC: Back-to-office-Report for pre-Appraisal Mission – May 6, 2006
Moldova PRSC I: PRSC: Back-to-office-Report for Appraisal Mission and Agricultural Policy Notes– July 11, 2006
Moldova PRSC I: BTOR for Appraisal and Public Finance Review Mission – Aug 29, 2006
Moldova PRSC I: Concluding Notes of the PRSC Review Mission, December 1, 2004.
Moldova PRSC I: Signed Agreement for Dutch Co-Financing, February 6, 2007.
Moldova PRSC I: Signed Agreement for DFID Co-Financing, February 6, 2007.
Moldova PRSC II: Minutes of the Review Meeting, October 4, 2007.
Moldova PRSC II: BTOR Report for PRSC 2 Preparation Mission – Nov. 6, 2007

Publicly Available World Bank Documents Related to this Report

Program Document for A Proposed First Poverty Reduction Support Credit In the Amount of SDR 6.8 Million (US$10 Million Equivalent) to the Republic of Moldova, September 2006.

Program Document for A Proposed Second Poverty Reduction Support Credit In the Amount of SDR 6.1 Million (US$10 Million Equivalent) to the Republic of Moldova, April 2008.

Other World Bank Reports

Moldova: Evaluation: Public Investment Workshop, January 2008.
Moldova: Draft of the revised Pension System Unification Strategy, January 2008

Annex 4: Priority Outcome Indicators

Objective/Issues	PRSC program Outcome Indicators	Results to date
Pre-requisite: Maintain Macroeconomic Stability	GDP growth of at least 4% in 2007 and 5% thereafter; inflation kept at 10.5% in 2007 and in single digits thereafter; fiscal stance consistent with macroeconomic framework i.e. from baseline 1.3% (of gdp) deficit in 2005 to around 1% by 2009; total PPG debt levels at sustainable levels.	GDP growth estimated 4.8% in 2006, 3% in 2007 (due to drought in summer of 2007), 7.8% in 2008; inflation exceeded 13% in 2006-2007 as result of external shocks (hikes in gas import prices), but fell to 7.3% (eop) in 2008, and 0.4% (eop) in 2009; Fiscal deficit of 1% of GDP in 2008 but rose to around 7% in 2009. Has exceeded IMF program targets; PPG debt levels have fallen from 27.4 % of GDP in 2005 to an estimated 21.2% in 2007 but rose to 22.7% in 2008.
Pillar I. Improving the Investment Climate		
A. Reducing regulatory and administrative costs of business regulations	Reduced regulatory compliance costs – CODB survey shows percent of management time spent on meeting regulatory requirements reduced from 17% in 2004. Average firm licensing and authorizations costs reduced from 52% of per capita GDP in 2004 to 30%. Frequency of inspections at or regional average.	Management time spending complying with Government regulations reduced from 17% in 2005 to 13.8% in 2008. **Objective achieved**. Average licensing and authorization costs fell to 38% of GDP per capita in 2007 and 18.9% by end of 2008 **Objective achieved**.
B. Improving trade facilitation	Physical inspection by MCS not to exceed 30% of total declarations on a monthly basis. Reduce average monthly import clearance time at the inland terminal of Chisinau and average monthly border crossing entry time to 30 minutes.	Physical inspection rate reduced from 99.9% in 2004 to 50% in 2007; and 29.3% and 32.08% for exports and imports respectively in 2008.**Objective partially achieved**. Clearance times reduced from 471 minutes in 2004 to 46.6 minutes and 62 minutes for exports and imports respectively in 2008. **Substantial progress made but objective not achieved**.
C. Developing agricultural markets	The gap between prices received by farmers and international parity prices for cereal and oilseed crops as measured by nominal protection coefficients (NPCs) at the factory (processor) gate has been reduced by 25% relative to 2005.	Gap for wheat/maize/sunflowers reduced from -28% / -48% / -18% average in 2000-2004 to **-14% / 8% / -29%** in 2006-2007, and further to 12% / 36% / -33% in 2008. Objective achieved for wheat and maize but not achieved for sunflower. **Objective partially achieved.**

	Improvement in rural poverty headcount. Price information on all basic commodities representing at least 5% of value of agriculture production for both domestic and international markets reported in local media at least weekly. New varieties registered have increased by 25%. Maximum time to evaluate and test seeds reduced to 1 year, and 4 years for seedlings.	Rural poverty has risen: from 31.4 percent in 2006, to 36.3 percent in 2009. **Objective not achieved**. Domestic and international grain price information collected and disseminated by MAFI and the state rural extension service, as well as by other partners (rural NGOs and farm organizations). **Objective achieved**. Testing period for seeds and seedlings has been reduced to 1 and 4 years respectively. The number of new varieties registered grew to 233 in 2008, up from 179 in 2007 and 111 in 2006. Thus, the number of new varieties increased (over the two-year period) by 110%. **Objective achieved.**
D. Reducing energy vulnerability.	Increase energy efficiency by reducing by 10% energy intensity measured by the total primary energy use (toe) per $1000 of GDP at PPP rate, in comparison to the base value in 2005. Cash collection ratios above 90% for natural gas and above 95% for electricity. Cost recovery of gas, electricity and heat tariffs for all categories of consumers (including households and budgetary institutions) approaches 100%. The regulatory framework in the electricity market compatible with relevant provisions of the ECSEE Treaty and the EU electricity directives. Energy as a share of household expenditures as reported by Household Budget Survey.	PPP data only available for 2005. Energy intensity, as measured by total energy consumed/ real GDP (lei)/ has decreased by 23% between 2005 and 2009. Ratio of Total Primary Energy Use (toe) to GDP fell from 1.80 in 2005 to 1.39 in 2009. **Objective achieved.** Cash collection rate, average for 2008: Gas – 92.5%, Electricity – 98%. **Objective achieved.** Tariffs set at cost-recovery levels. Heating tariffs in Chisinau set at cost-recovery levels under the DPO. **Objective achieved**. Energy Law passed in December 2009. Regulatory framework under revision to ensure compliance with European Energy Community Treaty (ECT). **Partially achieved**. Energy represents 7.9 percent of household expenditures (2005 HBS). No recent evidence to show that HBS reports energy as a share of household expenditure. **Objective not achieved.**

Pillar II. Improving The Efficiency and Management Of Public Sector Resources		
A. Building a meritocratic civil service	New civil servants to administrative posts in ministries and central agencies appointed through an open, competitive, merit- based selection process as specified in new civil service law.	The new civil service law entered into force in 2009, but is yet to be fully implemented. In 2007, in the absence of the new civil service law, 30% of new civil servants were appointed through a competitive, merit-based process. At present (2010), all civil service positions are publicly advertised. **Objective Achieved**.
B. Implementing a transparent and uniform remuneration system for civil servants	Base salary makes at least 75-80% of the total take-home pay and adequately reflects the value of job of the position-holder. Information on the public sector pay is centrally available for review and analysis.	Base salary increased from 25% of total remuneration to 50% in 2007. At present, base salary as a percentage of total remuneration is 80%, and information on public sector pay is available. **Objective achieved**.
C. Improving the Strategic Allocation of Public Resources.	Strategic policy focus of annual budgets improved through a stronger linkage between the MTEF and annual budget laws. Improvements in the quality of public investment projects selected for funding. Increased use and awareness of economic cost-benefit analysis in the public sector.	Policy Analysis and Coordination Unit created in the Government apparatus. MTEF Concept document for 2009-2011 contains medium-term policy priorities consistent with National Development Strategy. This has been approved by the Prime Minister to guide budget planning process. **Objective achieved**. For transport, water and sanitation sectors, project database was established under PRSC 2 to aid the prioritization of projects against alternative scenarios. There **is no evidence to support increased use and awareness of economic cost benefit analysis in the public sector**.
C.1. Agricultural Spending	No new debt write-offs for agricultural enterprises/ producers have occurred. Share of agriculture expenditures on subsidies reduced by 3 percentage points in 2007, and 5 pp every year thereafter. Peasant farmers' share of Agricultural Subsidies increases by at least 5% each year.	As part of the Government overall strategy, all liabilities (for all sectors) to the Government prior to 2007 were eliminated. **Achieved** Share of subsidies: 2006 – 73.4%, 2007 – 76.7%, 2008 – 73.1%, 2009 – 69.2%. Driven by drought related spending, subsidies increased by 2 percentage points in 2007. **Objective not achieved**. Peasant farmers received 12% of subsidies in 2007, up from 11% in 2006. However, they received only 10% of total subsidies in 2008 and 2009.With exception of vineyards, minimum farm size requirements reduced to 0.5 hectares. **Objective not achieved.**
C.2. Transportation Infrastructure	Actual funding from all sources for road maintenance, reconstruction and capital repairs reaches the amount of US$50 million in 2007 and US$90 million in 2009.	Road maintenance allocation was only MDL 242 million out of the MDL 515 million earmarked for major road rehabilitation in the 2009 budget. Under the new DPO, road maintenance budget was increased to MDL 582.9 million in the 2010 budget**.** Increases fell

	80% of the additional funding for road maintenance (beyond the 2006 funding level) is used for road maintenance contracts awarded through competitive bidding.	short of the target, **so objective partially achieved.** **Objective achieved.**
C.3. Education Spending	Student/Teacher and Student/Non-teacher ratios increased from 12.7 and 24.9 (2005) for public general schools. Share of expenditures on non-wage quality related items increased.	Ratio of pupils/teachers was 13 in 2006-2007; ratio of pupils/non-teachers was 22. No change in 2009: pupil/teacher ratio is 11.6. Public consultation on Education optimization strategy underway **Objective not achieved.** **Objective not achieved.**
C.4. Promote efficiency of health care spending	Share of health insurance budget allocation to primary health care increased to 30%.	Primary health care spending increased from 17% to 30.9% of total health spending in 2007. Direct contracting with primary health care centers allowed in all regions as of January 1, 2008. **Objective achieved.**
D. Public Procurement	No more than 10% of number contracts and 10% of the total value of contracts awarded by single source procurement. At least 50% of number contracts and 70% of the total value of contracts awarded by open tender. Publication of an Annual public report on the conduct and results of public procurement.	In 2007, 8.9% of contracts were awarded via soul sourcing (down from 45% in 2003). This figure remained under 10% in 2009. In 2009, opening tendering accounted for 71.4% of the value of contracts (up from 19% in 2003) and 50.5% of number of contracts. **Objective achieved.** Public Procurement Agency (PPA) publishes an annual report on its website. **Objective achieved.**
Pillar III. Strengthening Social Protection Systems		
A. Completing Pension System Reform Program	Individual accounts established for 100 percent of all known pension fund contributors. Increase correlation between contributions and expenditures for all types of pensioners.	All post-2005 data has been recorded in individual accounts for all known pension fund contributors. New data is entered on a continuous basis. **Objective achieved**. Contributions-based pension payments are yet to start. **Objective not achieved.**
B. Enhancing the distributional efficiency of social assistance benefit system	Share of poverty-targeted (i.e. means-tested) social assistance program budget in the total social assistance program budget increased from 17.7% in 2005.	Mean-tested social assistance spending was introduced in 2008. Transfers to poor households stood at 2% of GDP in 2008 (or 9.5% of social safety net budget). **Impact of the PRSC cannot be evaluated since means-testing was not in existence in 2005.**

Annex 5. Matrix of Policy Actions and Expected Outcomes

Objective/Issues	PRSC-I (Actions Taken)	PRSC-II (Actions Taken)	PRSC-III) (Proposed Triggers in Bold)	Outcome/Monitorable Indicators
Pre-requisite: Maintain Macroeconomic Stability	**Maintained a satisfactory macroeconomic framework**	**Maintained a satisfactory macroeconomic framework**	**Maintain satisfactory macroeconomic framework**	GDP growth of at least 4% in 2007 and 5% thereafter; inflation kept at 10.5% in 2007 and in single digits thereafter; fiscal stance consistent with macroeconomic framework; total PPG debt levels at sustainable levels.
Pillar I. Improving the Investment Climate				
A. Reducing regulatory and administrative costs of business regulations	**Adopted a Government decision on Establishment of a Registry of Official Acts Regulating Business Activity based on regulatory review.** **Adopted Law on Basic Principles and Mechanisms of State Regulation of Business Activity.**	**Implemented transitional provisions of the Law on Basic Principles and Mechanisms of State Regulation of Business Activity through the Government adoption and submission to Parliament of a draft law covering amendments to 80 laws.**	**Adopt and submit to Parliament amendments to the Law on Protection of Competition to: (i) provide clearer definitions of various types of unfair competition by market participants, and (ii) clarify the powers of NAPC in enforcing fair competition**.	Reduced of regulatory compliance costs - CODB survey shows percent of management time spent on meeting regulatory requirements reduced from 17% in 2004. Average firm licensing and authorizations costs reduced from 52% of per capital GDP in 2004 to 30%). Frequency of inspections at or regional average.
B. Improving trade facilitation	**Introduced risk-based selectivity using Asycuda selectivity module at the Chisinau Customs terminal**.	Decision approved on sustainable Customs border and clearance performance indicators and reporting system.	Reduce number of agencies at the border crossing points (in line with the EU practice on border organization and structure) and customs collects fees at the border on behalf of	Physical inspection by MCS not to exceed 30% of total declarations on a monthly basis. Reduce average monthly

			other agencies.	import clearance time at the inland terminal of Chisinau and average monthly border crossing entry time to 30 minutes.
C. Developing agricultural markets	**Liberalized agricultural exports by issuing and publishing a Government decision making the Universal Commodities Exchange purely voluntary for all commodities.** Developed terms of reference for a study on the impact on grain price, covering the use of profit margin ceilings on bread, management of state grain reserves, and external trade policies. Began dissemination of information on international prices for cereals and oilseeds in local media.	Conducted review of impact of export liberalization on cereals and oilseeds prices Completed Food Security and Grain Price Stabilization Study **Began implementation of an Action Plan to cover, inter alia, liberalization of the import regime for seeds and seedlings; improvements in agricultural product standardization and certification system; and development of a Market Information System, including scaling up dissemination of cereal and oilseed prices to cover prices on domestic markets.**	Continue to review export liberalization of cereals and oilseeds by monitoring farmgate prices relative to international parity prices. Approve and begin implementing Action Plan based on completed study that includes regulations defining how and when the Strategic Grain Reserve should intervene. Continue implementation of Action Plans, including: (i) scaling up of market information system to cover all basic commodities that account for at least 5% of value of agriculture production; and (ii) reducing testing periods for annual and perennial crops in the EU common catalogue to 1 year and 4 years, respectively. Conduct review of impact of accelerated testing.	The gap between prices received by farmers and international parity prices for cereal and oilseed crops as measured by nominal protection coefficients (NPCs) at the factory (processor) gate has been reduced by 25% relative to 2005. Improvement in rural poverty headcount. Price information on all basic commodities representing at least 5% of value of agriculture production for both domestic and international markets reported in local media at least weekly. New varieties registered have increased by 25%. Maximum time to evaluate and test seeds reduced to 1 year, and 4 years for seedlings. Implementation of SCA law.

		Adopted law on Savings and Credit Associations (SCAs) providing for multi-level licensing with corresponding reporting and supervisory requirements, and proper enforcement tools.		
D. Reducing energy vulnerability.	Regulator increased domestic gas tariffs in response to the increase of price of imported natural gas (from 80 to 160 $/mcm) passing full cost increase to consumers.	Adopted a new Energy Strategy aimed at legal, regulatory and technical compliance of the energy sector in Moldova with the Energy Community Treaty (ECT) and the EU energy directives.	**Government develops and adopts a new energy law that enables new market rules that would provide solutions to, inter alia: (i) cross-border electricity trade and congestion management; and (ii) gradual power market opening.**	Increase energy efficiency by reducing by 10% energy intensity measured by the total primary energy use (toe) per $1000 of GDP at PPP rate, in comparison to the base value in 2005. Cash collection ratios above 90% for natural gas and above 95% for electricity. Cost recovery of gas, electricity and heat tariffs for all categories of consumers (including households and budgetary institutions) approaches 100%. The regulatory framework in the electricity market compatible with relevant provisions of the ECSEE Treaty and the EU electricity directives. Energy as a share of household expenditures as reported by Household Budget Survey.

Pillar II. Improving The Efficiency and Management Of Public Sector Resources				
A. Building a meritocratic civil service	**Approved a strategy to ensure competitive merit based recruitment of civil servants including procedures for open competition for vacant positions, appointments and a system of civil service appeals.**	**Adopted and submitted to Parliament a draft Civil Service Law that defines the scope of the civil service, contains guiding principles for competitive merit based appointments and promotions, posts classification and grading and institutional responsibilities civil service management**	**Adopt regulations and secondary legislation required for implementation of new Civil Service Law, including: (i) regulation on Classification and Grading of civil service posts; (ii) regulation on the Automated CS Register; and, (iii) revised procedures for competitive recruitment.**	New civil servants to administrative posts in ministries and central agencies appointed through an open, competitive, merit- based selection process as specified in new civil service law.
B. Implementing a transparent and uniform remuneration system for civil servants	**First phase of the remuneration reform implemented increasing base salary for civil servants.**	Began work on developing a new civil service classification and grading system. The Government approved a 3-year strategy to optimize the public sector employment. Sector ministries have been tasked with developing their action plans to rationalize employment in respective public sectors.	Develop legislation to introduce a new affordable, transparent, and uniform pay system for civil servants based on new civil service classification and grading system Responsible line ministries and institutions develop and adopt public employment action plans which aim gradually rationalizing employment in respective public sectors.	Base salary makes at least 75-80% of the total take-home pay and adequately reflects the value of job of the position-holder. Information on the public sector pay is centrally available for review and analysis
C. Improving the Strategic Allocation	MTEF framework for 2007-2009, including a	Established a central policy unit to support the Cabinet of	Based on the Government's national programs, the	Strategic policy focus of annual budgets improved through a

of Public Resources.	technical annex on public investment spending, is approved by the Government and submitted to Parliament for information in advance of the 2007 budget.	Ministers in defining medium-term policy priorities. Government approved a decision to integrate a medium-term policy priority statement into the MTEF. Introduced Project Identification Form (PIF) database to aid the prioritization of projects against alternative scenarios	Government issues a policy statement defining the list of policy priorities as guidelines for the preparation of the MTEF for 2009-2011. Continue implementation of the Project Identification Form (PIF) database for the sectoral investment priorities.	stronger linkage between the MTEF and annual budget laws. Improvements in the quality of public investment projects selected for funding; Increased use and awareness of economic cost-benefit analysis in the public sector.
C.1. Agricultural Spending	No provision of post-1999 debt relief for agricultural enterprises/ producers, except in the case of one-off relief for firms undergoing privatization. **Created level playing field for all agricultural support programs by removing all restrictions on access to subsidies and supports based on farm ownership structure or size and developing objective and transparent eligibility criteria.**	Began reallocating agricultural expenditures by: increasing the share of services and reducing share of subsidies over the next three to five years. Drafted an Action Plan to streamline and modernize the agricultural research, training and education system that includes: international benchmarking; rationalization requirements; land and funding needs. Evaluated efficiency of special service for the active influence of hydrometeorological processes and alternatives.	Continue reallocating agricultural expenditures to growth enhancing measures. Finalize and begin implementation of an Action Plan to streamline and modernize the agricultural research system; complete concept to modernize the agricultural training and education system. Increase the share of subsidies going to individual (peasant and household) farms, with the objective of increasing by at least 5 percentage points each year (assuming sufficient applications); collect data on	No new debt write-offs for agricultural enterprises/ producers have occurred. Share of agriculture expenditures on subsidies reduced by 3 percentage points in 2007, and 5 pp every year thereafter. Peasant farmers' share of Agricultural Subsidies.

			beneficiaries of subsidies (including VAT output, MTS, and vineyard) by farm type and farm size	
C.2. Transportation Infrastructure		**Adopted strategy for transport infrastructure management and financing, with emphasis on road maintenance, reconstruction and capital repairs that included (i) mechanisms for reform of road financing; (ii) introduction of competition in the execution of road maintenance contracts; and (iii) participation of road users in the oversight of road maintenance financing.**	**The amount allocated in the National Budget for Road Maintenance and transferred to the Road Maintenance Fund will represent at least MDL450 million in 2009. Sustainability will be ensured through the allocation of revenues from the fuel excise tax to the Road Maintenance Fund.**	Actual funding from all sources for road maintenance, reconstruction and capital repairs reaches the amount of US$50 million in 2007 and US$90 million in 2009. 80% of the additional funding for road maintenance (beyond the 2006 funding level) is used for road maintenance contracts awarded through competitive bidding.
C.3. Education Spending		**Drafted strategy to optimize school networks, consultations initiated with stakeholders, prepared for piloting the strategy in 2 raions.**	**Finalize draft strategy to optimize school network and begin piloting in 2 pilot raions including simulation of the use of a revised funding formula.**	Student/Teacher and Student/Non-teacher ratios increased from 12.7 and 24.9 (2005) for public general schools. Share of expenditures on non-wage quality related items increased.
C.4. Promote efficiency of health care spending		Adopted procedures for direct contracting with primary health care centers. HIC directly contracts with at least 5% of primary health care centers.	Twenty-five percent of rayon level primary health care centers (i.e. 9 out of 35) managed by competitively selected managers**.**	Share of health insurance budget allocation to primary health care increased to 30%.

D. Public Procurement	**Increased competition for public procurement contracts (decline in single source procurement from 51% to 45% of the value of contracts awarded; increased use of open tendering from 28% to 40% of value of contracts awarded)**	Enacted new Public Procurement Law.	Address institutional reporting arrangements to avoid conflict of interest in the public procurement supervisory function. Undertake Action Plan for implementation of Public Procurement Law. Prepare a medium-term Action Plan to ensure adequate staffing and funding for the Procurement Agency.	No more than 10% of number contracts and 10% of the total value of contracts awarded by single source procurement. At least 50% of number contracts and 70% of the total value of contracts awarded by open tender. Publication of an Annual public report on the conduct and results of public procurement.
Pillar III. Strengthening Social Protection Systems				
A. Completing Pension System Reform Program	**Continue implementation of individual account system by ensuring integrity of 2005 contribution data in NSIH database.** Development of Agricultural Sector Pension Reform Strategy.	**Adopted and submitted to Parliament draft amendments to pension laws enabling pension payments to be made based on individual pension contributions**. Developed strategy to unify the pension systems for all types of pensioners (i.e. non-farmers, farmers and	Adopt and submit to Parliament amendments to Article 29 of the Law on Public System of Social Insurance (Law 489) to clarify that pension benefits are based on actual contributions paid. Adopt and submit to Parliament an amendment to make mandatory the issuing annual statement providing summary information on individual pension contributions to date to all individual insured contributors. Complete draft strategy to unify the pension system that includes equalization of benefit	Individual accounts established for 100 percent of all known pension fund contributors. Increase correlation between contributions and expenditures for all types of pensioners.

		privileged).	calculation/entitlement rules for all categories of contributors (following a period of transition); eliminates privileges and strengthen the link between contributions and benefits including changing the second part of the benefit formula to include revaluation of wages.	
B. Enhancing the distributional efficiency of social assistance benefit system		Approved and submitted to Parliament draft Law on Social Assistance, establishing the legal basis for poverty targeting. Designed a unified database of the beneficiaries of cash-equivalent social assistance programs	Develop implementing regulations for improved poverty targeting. Development of a computer system for the administration of targeted poverty benefits and for the provision of the consolidated social assistance database (development and approval of technical specifications).	Share of poverty-targeted (i.e. means tested) social assistance program budget in the total social assistance program budget increased from 17.7% in 2005.

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