



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 17-Apr-2018 | Report No: 125879



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Moldova	P156963	Moldova Economic Governance Development Policy Operation	
Region	Estimated Board Date	Practice Area (Lead)(s)	Financing Instrument
EUROPE AND CENTRAL ASIA	June 19, 2018		Development Policy Financing
Borrower(s)	Implementing Agency		
Moldova	Ministry of Finance		

Proposed Development Objective(s)

The proposed EGDPO supports ongoing reforms to enhance the transparency and sustainability of the public sector and to level the playing field for private sector development. They enjoy coordinated support from the EC, the IMF and the World Bank, including by targeted technical assistance.

Financing (in US\$, Millions)

SUMMARY

Total Financing	30 million
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DETAILS

Source: IDA

Decision

Following the Corporate Review, the decision was taken to proceed with appraisal and negotiations.

B. Introduction and Context

Moldova’s recent macro-economic performance has been characterized by consumption-led growth and low fiscal



deficits. In 2016-17, GDP growth resumed reaching 4.5 percent on account of strong agricultural output and robust private consumption growth largely driven by remittances and public and private wage increases. At the same time, credit growth remains negative reflecting the limited pass-through of the monetary policy stance to commercial interest rates and tighter prudential standards in the banking sector. The fiscal deficit is estimated to reach 0.8 percent in 2017, lower than the deficit forecasted at budget stage and public debt remains sustainable under different stress-test scenarios. In 2018, growth is expected to remain robust and reach 3.8 percent but to moderate over the medium term. The inflation rate is expected to re-enter the target corridor due to base effects and lower regulated prices. Fiscal deficits are projected to remain under control.

In a context of slowing growth over the medium term, addressing the structural impediments to efficient public and private sector governance is paramount for igniting new sources of growth. As a large share of the population is already living and working abroad, and the attachment of subsequent-generation migrants to Moldova declines along time, Moldova needs to search for new drivers of growth reliant on higher private sector investments and in this context, remove barriers to private sector access to and use of resources. Moreover, governance challenges undermine the efficiency of public resource use and constrain competition among businesses.

Relationship to CPF

In line with the World Bank FY18-21 Country Partnership Framework and the Moldova National Development Strategy, the proposed Economic Governance Development Policy Operation (EGDPO) supports Moldova's transition towards a more sustainable and inclusive growth model. It builds on the progress achieved under the previous DPO by supporting actions to enhance the transparency of the banking sector and recent analytical work, which identifies strengthening the rule of law and the accountability of economic institutions as one of the top three constraints that are holding back economic growth and prosperity in the country.

C. Proposed Development Objective(s)

This operation supports reforms to strengthen economic governance in Moldova linked to the management of fiscal risks (Pillar A) and private sector development (Pillar B).

D. Program Description

This stand-alone Economic Governance Development Policy Operation (EGDPO) supports reforms to reduced fiscal risks and level the playing field for private sector development. The authorities are committed to restore investors' and citizen's trust in the integrity of the public sector by developing transparent and stable economic institutions and improving equity in access and use of resources. Reforms under the first pillar focus on reducing fiscal risks by reforming the pensions system, strengthening tax collection from tobacco taxation, pre-empting potential conflicts of interest of high level officials, and improving the reliability of SOEs and municipal enterprises' financial information. Reforms under the second pillar aim at removing bottlenecks in obtaining licenses, authorizations, and certificates and in accessing key agriculture inputs (seeds, seedlings, fertilizers, and pesticides), and at improving the governance regime in the banking and energy sector.



E. Implementation

The Ministry of Finance will steer the administration of this operation, as the main body responsible for financial aid coordination and management. The Ministry of Finance has recently assumed this role and will be responsible for the supervision for the monitoring of progress in the policy areas supported by the operation.

F. Poverty and Social Impacts and Environment Aspects

The operation is not expected to have adverse impacts along poverty, social, gender or environmental dimensions. Some of prior actions could have positive impacts on poverty and equity. The pension and tax related reforms promote social sustainability, reduce privileges that do not benefit large segments of population, especially poor, and incentivize healthier lifestyle. The pension reform and higher tobacco taxation contribute to the reduction of gender gaps in income and non-communicable diseases.

G. Risks and Mitigation

Risks to the program implementation are moderate to substantial. Macro, sector strategies and technical design risks are considered substantial and are partially mitigated by the reforms supported by this operation, the recent record of Moldova's prudent fiscal policy, the IMF program which serves as a macro-fiscal stability anchor, and the technical assistance (TA) provided by the World Bank Group (WBG) which will help continue the reform agenda.

CONTACT POINT

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Implementing Agencies

Ministry of Finance



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APPROVAL

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