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**COUNTRY PARTNERSHIP STRATEGY
FOR
THE REPUBLIC OF MOLDOVA
FOR THE PERIOD FY14-17**

August 9, 2013

**Belarus, Moldova and Ukraine Country Management Unit
Europe and Central Asia Region**

**International Finance Corporation
Central and Eastern Europe Region**

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical & Advisory Activities	GEF	Global Environment Facility
AEI	Alliance for European Integration	GeT	Governance e-Transformation
AF	Additional Financing	GHG	Greenhouse Gas
A2F	Access to Finance	GPSA	Global Partnership for Social Accountability
BEEPS	Business Environment and Enterprise Performance Survey	HBS	Household Budget Survey
BEM	Banca de Economii	HD	Human Development
CEM	Country Economic Memorandum	HMIS	Health Management Information System
CEP	Competitiveness Enhancement Project	IBRD	International Bank for reconstruction and Development
CFR	Corporate Financial Reporting	ICT	Information and Communications Technology
CIS	Commonwealth of Independent States	IDA	International Development Association
CPAR	Central Public Administration Reform	IDF	Institutional Development Fund
CPI	Consumer Price Index	IFAD	International Fund for Agricultural Development
CPIA	Country Policy and Institutional Assessment	IEG	Independent Evaluation Group
CPS	Country Partnership Strategy	IFC	International Finance Corporation
CPS PR	Country Partnership Strategy Progress Report	IFI	International Financial Institution
CPS CR	Country Partnership Strategy Completion Report	IFRS	International Financial Reporting Standards
CSO	Civil Society Organization	IMF	International Monetary Fund
DCFTA	Deep and Comprehensive Free Trade Area	IOM	International Organization for Migration
DFID	UK Department for International Development	IWRM	Integrated Water Resource Management
DH	District Heating	KfW	KfW Entwicklungsbank
DHS	Demographic and Health Survey	LFS	Labor Force Survey
DRG	Diagnosis-related Group	LOS	Law on Official Statistics
DPO	Development Policy Operation	MACP	Moldova Agriculture Competitiveness Project
EBRD	European Bank for Reconstruction and Development	MCC	Millennium Challenge Corporation
EC	European Commission	MDG	Millennium Development Goal
ECA	Europe and Central Asia	MDL	Moldovan Leu
EFA/FTI	Education for All/ Fast-Track Initiative	MDTF	Multi-Donor Trust Fund
EIB	European Investment Bank	MERP	Moldova Education Reform Project
EMIS	Education Management Information System	MIGA	Multilateral Investment Guarantee Agency
ENPI	European Neighborhood and Partnership Instrument	MITC	Ministry of Information and Communications Technology
ESRP	Economic Stabilization and Recovery Program	MMR	Maternal mortality rate
EU	European Union	MP	Member of Parliament
FDI	Foreign Direct Investment	MSIF	Moldova Social Investment Fund
FLEG	Forest Law Enforcement and Governance	NBM	National Bank of Moldova
FY	Fiscal Year	NBS	National Bureau of Statistics
GAC	Governance and Anti-Corruption	NCD	Non-communicable disease
GDP	Gross Domestic Product	NCFM	National Commission of Financial Market

NDS	National Development Strategy	RF	Results framework
NEET	Not in Education, Employment or Training	RFP	Request for Proposals
NHIC	National Health Insurance Company	RISP	Rural Investment and Services Project
NPLs	Non-performing Loans	ROSC	Report on Observance of Standards and Codes
NSS	National Statistical System	SABER	Systems Approach for Better Education Results
OECD	Organization for Economic Cooperation and Development	SD	Sustainable Development
OSCE	Organization for Security and Co-operation in Europe	SDR	Special Drawing Right
PAD	Project Appraisal Document	Sida	Swedish International Development Cooperation Agency
PAR	Public Administration Reform	SLM	Sustainable Land Management
PAYG	Pay-As-You-Go Pension System	SME	Small and Medium-sized Enterprises
PCG	Partial Credit Guarantee	SPS	Sanitary and Phytosanitary
PEFA	Public Expenditure & Financial Accountability	STEP	Skills Toward Employability and Productivity
PER	Public Expenditure Review	TA	Technical Assistance
PFM	Public Financial Management	TF	Trust Fund
PforR	Program-for-Results	TSA	Targeted Social Assistance
PHC	Primary Health Center	UNDP	United Nations Development Program
PISA	Program for International Student Assessment	UNICEF	United Nations Children's Fund
PM	Prime Minister	USAID	United States Agency for International Development
PPG	Public and Publicly Guaranteed	USD	United States Dollar
PPP	Purchasing Power Parity	WB	World Bank
PPPs	Public Private Partnerships	WBG	World Bank Group
PRSC	Poverty Reduction Support Credit	WBI	World Bank Institute
PSD	Private Sector Development	WEF	World Economic Forum
QER	Quality Enhancement Review	WHO	World Health Organization
QERM	Quality Education in Rural Areas of Moldova	WPA	Work Program Agreement
RBF	Results-based Financing		

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REPUBLIC OF MOLDOVA
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MOLDOVA

FY14-17 COUNTRY PARTNERSHIP STRATEGY

Executive Summary

1. **European integration anchors the Government of Moldova's policy reform agenda but tensions between the majority coalition and the opposition, and within the majority, had slowed reforms.** Negotiations with the European Union (EU) on an Association Agreement and a Deep and Comprehensive Free Trade Area (DCFTA) were recently finalized.¹ The visa liberalization dialogue is progressing. Yet, there are differing views in society on the appropriate direction, pace and depth of reforms, and these were reflected in differences not only between the majority and the opposition, but also within the ruling coalition, and have hampered reforms. These tensions led to the resignation of the Government after a no-confidence vote in March 2013. Although the Parliament elected in May 2013 a new Prime Minister (PM) who has formed a government from the ruling coalition, early parliamentary elections before those scheduled for 2015 may still be a possibility.

2. **Moldova's economy has recovered from the global financial crisis of 2008-09, but growth halted in 2012.** During 2010-11, Moldova's economy grew at an average rate of 6 percent, bringing down the fiscal deficit and inflation below 3 and 5 percent respectively in 2012. However, growth came to a halt in 2012, revealing Moldova's vulnerability to the Eurozone crisis and climatic events such as droughts. Risks to the macroeconomic outlook are substantial due to a large current account deficit and problems with a majority state-owned bank facing high non-performing loans and low capital. Still, risks of debt distress are low, as long as growth rates remain positive.

3. **Despite a sharp decline in poverty in the 2000s, Moldova remains one of the poorest countries in Europe.** Based on the Europe and Central Asia (ECA) poverty line of USD 5/day at Purchasing Power Parity (PPP), 55 percent of the population was poor in 2011, and extreme poverty (poverty line of USD 2.5/day at PPP) was 10 percent. The most vulnerable groups at risk of poverty in Moldova remain those with low education levels, households with three or more children, those in rural areas, families relying on self-employment, the elderly, and Roma population. Moldova performs well in some areas of gender equality, yet disparities persist in education, health, economic opportunity, agency and violence against women. Human trafficking is an issue. Moldova is a source, and to a lesser extent a transit and destination country, for both sex trafficking and forced labor.

4. **Recent growth performance has promoted shared prosperity and reduced poverty.** Most of the observed poverty reduction has been driven by growth. Growth in consumption of the bottom 40 percent of the population outpaced average growth in consumption during 2006-11: 5.8 percent compared with 2.9 percent for the general population. However, evidence suggests that the bottom 40 percent are particularly affected by weaknesses in the quality and efficiency of health and education services, and especially vulnerable to climate shocks.

5. **Moldova has made significant strides in its economic and political transition, but much remains to be done.** Moldova lags far behind the rest of the region – a result of policies

¹ The aim is to initial the Association Agreement in the fall of 2013 and sign it in 2014.

and history. Moldova has a small domestic market with limited competition and weak drive for innovation. Yet these challenges could be overcome by reducing the economic distance to larger regional markets and reaping the benefits of openness. Unfortunately, Moldova has high cross-border costs, and is not taking advantage of its proximity to wealthier regional markets due to its low endowment in institutional, human and natural capital.

6. **Moldova's National Development Strategy (NDS) Moldova 2020 sets seven strategic priorities.** These are justice and fight against corruption; national education system aligned with labor market requirements; pensions; business environment; roads infrastructure; accessible and inexpensive finance; and energy efficiency. The Strategy is intended to prioritize state interventions to deliver the overarching goal of bringing about *qualitative economic development and poverty reduction*. The NDS was adopted by the Parliament as national law. The NDS and its consolidated action plan include some measures to reduce inequality and address key cross-cutting themes, such as social inclusion and gender equality, environmental preservation, climate change and disaster events, and reintegration of localities from the left bank of the Nistru River (Transnistria).

7. **The CPS will support Moldova to boost shared prosperity and reduce poverty by capturing the full benefits of openness and integrating with the EU and the global economy.** Growth in Moldova has been favorable to the bottom 40 percent who have experienced higher consumption growth than average. The CPS will help address the remaining impediments towards a stronger and inclusive growth. Three pillars are proposed, which will help Moldova diversify and expand its endowment of institutional, human and natural capital. The three pillars are:

- *Increasing Competitiveness:* continued institutional reforms for a business enabling environment and governance, access to finance, transparency in the financial sector, and targeted activities to help improve companies' competitiveness are needed to reduce barriers and to translate economic openness into concrete benefits of more jobs and higher income.
- *Enhancing Human Capital and Minimizing Social Risks:* the widening gap with EU28 in education and health outcomes needs to be progressively closed. Demographic challenges need to be addressed, and vulnerabilities can be tackled by strengthening social protection systems.
- *Promoting a Green, Clean and Resilient Moldova:* the debilitating effects of climatic events on agriculture and rural livelihoods need to be addressed, natural resource management improved, and energy security and efficiency achieved to ensure sustainable development.

8. **Going forward, the CPS will support an agenda on knowledge and learning that will deepen our understanding of the main drivers of poverty reduction and shared prosperity.** In particular, a Poverty Assessment has already been scheduled for FY15 and will provide input to the CPS Progress Report during mid-term review.

9. **The CPS has governance and gender lenses,** and a calibrated engagement in localities from the left bank of the Nistru River (Transnistria) will be considered in close consultation with the authorities of the Republic of Moldova.

10. **The CPS has been the subject of broad consultations.** Non-governmental organizations, academia, youth and students, think-tanks, central and local public authorities,

development partners and parliamentarians were consulted on the proposed areas of engagement in the Strategy, as were the main political parties that have confirmed their agreement with the Strategy's three pillars and its key results.

11. **Risks to the CPS are high**, ranging from a volatile political situation and reform slowdown that may come from state capture, and the recurrent threats of early elections. In addition, headwinds from the Eurozone and broader global economy; fiduciary risks; capacity risks in the public sector and with private contractors; and vulnerability to extreme climate events and natural disasters are considerable risks. The risks would be mitigated by engaging all parties across the political spectrum and introducing a governance filter in all operations, supporting competitiveness reforms, diversifying the economy and strengthening social safety nets.

12. **Other measures to reduce implementation risks could include** emphasizing the need for improved public financial management and assisting with implementing procurement reforms; engaging in areas where results have been already attained; and implementing public administration reforms emphasizing accountability and capacity building. Additional measures include assisting with building resilience to climate impact and taking advantage of flexible financing instruments when disasters strike.

I. Country Context

1. **Moldova still faces the challenges of political and market transitions and has to prepare for new ones such as a declining and graying population and a warmer climate.** Moldova has established a parliamentary regime with an uninterrupted cycle of democratic transfer of power since independence. However, entrenched divisions, geopolitical factors and lack of civic identity make political competition fierce, and result in tepid and incremental reforms. Moldova has also established the formal institutions of a market economy. After hitting bottom in the late 1990s Moldova has gained lower middle income status, and poverty has been sharply reduced. Still, to sustain progress and attain levels of well-being comparable to its EU neighbors, Moldova needs to improve governance and the business enabling environment. To maximize the potential of its people – especially the bottom 40 percent – Moldova needs to invest in human capital and narrow the widening human capital gap with EU28. The debilitating effects of climatic events on agriculture and rural livelihoods, which affect most the bottom 40 percent of the population, also need to be addressed. Dealing with these challenges will help Moldova achieve its ambitions of shared prosperity for its people.

A. Political Context

2. **European integration anchors the Government's policy reform agenda.** Negotiations between Moldova and the EU on an Association Agreement and DCFTA began in 2010 and were recently completed. The dialogue on visa liberalization is also progressing. During recent visits to the country, the German Chancellor and President of the European Commission acknowledged the EU integration efforts undertaken by the Government. Critical to achieving Moldova's development priorities, and to deeper political association and economic integration with the EU, are improved governance, stronger public administration, independent judiciary and strengthened rule of law.

3. **A history of difficult relations among the constituent parties of the ruling alliance carries a risk of political discontinuity.** Having won a parliamentary majority in elections in July 2009 and November 2010, the three parties of the Alliance for European Integration (AEI) formed a government, but fell short of the necessary majority to elect the President. In March 2012, with the support of Members of Parliament (MPs) who left the Communist Party, the AEI garnered the necessary votes to elect the President, avoiding new parliamentary elections. However, AEI's common bond towards EU integration has never suppressed stark divisions over values, as well as personal rivalries and control of state institutions. These culminated in February 2013 in a call from the senior partner of the coalition (and the PM's party) to negotiate new terms of the power-sharing agreement. The next parliamentary elections are scheduled for 2015, but on March 5, 2013 the Government fell after a no-confidence vote in the Parliament. Subsequently, the Parliament elected the new Speaker and PM, re-establishing the AEI Government. It remains to be seen if tensions have been fully resolved, and the prospect of early elections cannot be discounted.

4. **Transnistria's unresolved status hinders development progress, but while significant uncertainties remain, there have been recent positive developments.** Authorities in Transnistria, the territory of the Republic of Moldova located on the eastern side of the Dniestr/Nistru River, proclaimed an autonomous Republic in 1991, following the independence of Moldova. In March 1992 violence erupted and escalated in a five-month civil war. Transnistria operates as a *de facto* state but is not recognized by any international party. This

situation has continued to weigh on Moldova's development path, including on negotiations for the EU-Moldova Association Agreement and DCFTA. The resumption of dialogue – the so-called 5+2 settlement process – in February 2012, after being stalled for six years, provides an opportunity for further progress on the settlement process,² although the recent adoption of a so-called “border law” by Transnistria representatives is a source of risks. The framework for international support to the settlement process is one of ‘confidence-building’, seen as an avenue to cement the positive developments in the negotiation process. Confidence-building measures and negotiations brokered by the Organization for Security and Co-operation in Europe (OSCE) play an important development function in keeping infrastructure and supply networks open between the regions and eastwards. Addressing now the needs within Transnistria and its relationship with Moldova will facilitate its prosperity and economic integration in the region regardless of its future status.

B. Recent Economic Developments

5. **The economy has been volatile over the previous CPS period, reflecting exposure to global economic and climatic conditions.** Moldova's economy has recovered from the global financial crisis of 2008-09, but growth halted in 2012 due to the Eurozone sovereign debt and banking crisis, and drought (see Table 1). Recovery of remittances and investment growth fuelled domestic demand in 2010-11. By the end of 2011, the Gross Domestic Product (GDP) had recovered to above pre-crisis levels. However, real GDP dropped by 0.8 percent in 2012 as a fall in exports to the EU coincided with the drought that severely hit agriculture and food industry. In the first quarter of 2013 the economy recovered again by 3.5 percent year on year.

6. **Macroeconomic management has improved.** In early 2010 the Government began implementing a program to address macroeconomic vulnerabilities and withstand the economic crisis. The program rests on four pillars: (i) fiscal policies to restore sustainability while safeguarding public investment and social spending priorities; (ii) flexible monetary and exchange rate policies to keep inflation under control, facilitate adjustment to shocks, and rebuild foreign reserves; (iii) policies to ensure financial stability through early detection of bank difficulties, and strengthening the legal framework for bank rehabilitation and resolution; and (iv) structural reforms to raise the economy's potential. It was supported by the International Monetary Fund (IMF), and five reviews were successfully completed by late 2012. The general government's fiscal deficit decreased from 6.3 percent of GDP in 2009 to 2.1 percent in 2012. Inflation, as measured by the Consumer Price Index (CPI), was 4.6 percent in 2012.

7. **The current account deficit narrowed to 7 percent of GDP in 2012, and continued to be financed by private sector borrowing and official inflows.** While the trade deficit remained large, export growth outpaced import growth in 2011-12. Remittances recovered in 2010-12 but still have not reached pre-crisis levels. Foreign Direct Investment (FDI) net inflows dropped to only 2.2 percent of GDP in 2012, underscoring the importance of reforms to attract investments to achieve sustained recovery and spur modernization. The current account deficit was therefore mostly financed by private and public debt. Foreign exchange reserves reached USD 2.5 billion in mid-2013 – exceeding pre-crisis levels and covering over four months of imports.

² Moldova, Transnistria, Ukraine, Russia, and the OSCE are direct participants in this process, and the United States and the EU act as external observers. With Ukraine assuming Chairmanship of OSCE in 2013, further momentum is expected.

Table 1: Main Macroeconomic Indicators, 2009-17

	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Actual			Projections					
Nominal GDP, MDL billion	60.4	71.9	82.2	87.8	96.7	105.9	115.7	127.0	139.2
<i>Real growth rates:</i>									
GDP, % growth	-6.0	7.1	6.4	-0.8	4.5	4.0	4.0	4.5	4.5
Export, % growth	-12.1	13.7	28.6	2.3	6.6	4.7	4.8	5.1	5.3
Import, % growth	-23.6	14.3	19.3	2.5	6.6	5.6	4.8	5.1	5.4
Real Effective Exchange Rate (2000 = 100)	111.1	117.5	129.2	124.2	...	...	...	...	...
CPI, % average	0.0	7.4	7.6	4.6	4.9	5.0	4.8	4.6	4.3
Current Account Balance, % GDP	-9.8	-9.8	-12.6	-7.0	-7.0	-7.9	-7.9	-8.1	-8.3
Remittances, % growth in USD	-37.4	13.2	21.7	11.9	5.5	5.4	5.1	5.1	4.9
International Reserves (USD million)	1480	1718	1965	2515	2614	2877	2906	3073	3493
Terms of Trade, % change	14.8	-2.1	-14.3	-0.8	0.1	-1.0	-0.2	-0.1	-0.1
FDI, net (% GDP)	2.7	3.4	4.0	2.2	1.9	1.9	1.8	1.9	1.9
Fiscal Balance, % GDP	-6.3	-2.5	-2.4	-2.1	-1.6	-1.4	-1.2	-1.0	-0.9
External Debt, % GDP	80.2	82.3	77.6	84.5	81.1	80.6	76.7	73.7	69.4
PPG Debt, % GDP	21.0	23.2	21.7	24.3	24.5	24.0	23.1	21.7	20.3

Source: National Statistics and World Bank staff calculations.

C. Macroeconomic Prospects and Debt Sustainability

8. **While Moldova remains vulnerable to a variety of shocks, the macroeconomic policy framework is expected to remain adequate with moderate growth and low inflation.** Moldova's macroeconomic policies of maintaining flexible exchange rates and inflation targeting, as well as low public debt levels, have reduced the main macroeconomic risks. After a recession in 2012, GDP growth is expected to rebound to 4.5 percent in 2013, as recovery in agriculture will likely lead to growth acceleration in the second half of 2013. We project growth of 4-5 percent over 2014-17, with higher external demand for Moldova's exports, which will be supported by higher consumer and investor confidence. Prudent monetary policy is anticipated. Inflation is expected to remain within the target of 5 percent plus/minus 1.5 percent in line with targets set by the National Bank of Moldova (NBM). Resuming an IMF-supported program³ as an anchor of prudent fiscal and monetary policies will further strengthen the macroeconomic framework for sustained recovery.

9. **Budget consolidation is projected to continue in the medium term.** We expect that the fiscal deficit will remain below 2 percent of GDP in 2014-17, but significant fiscal pressures remain. The public sector wage bill at central, and particularly local, government levels remains high. Education and health sector inefficiencies are still large. The Government has undertaken reforms to improve expenditure composition, especially in education, but much more needs to be

³ A staff team from the IMF visited Chisinau during June 19-24, 2013. They noted that Moldova's recent three-year IMF-supported program largely achieved its main objectives, notwithstanding the non-completion of the last program review. However, the team also noted that some recent developments and policy initiatives put these gains at risk, including a planned radical makeover of taxation in agriculture; the re-opening of loopholes in the value-added tax regime; and the ad-hoc increase in pensions and salary hikes for public dignitaries; the need to rehabilitate Banca de Economii through a substantial capital increase, strengthening of its management, and subsequent open and transparent privatization; the need for comprehensive enforcement of shareholder transparency and suitability requirements, as well as protection of property rights in banks, along a speedy implementation of the ongoing judicial reform are crucial. The staff team remains available for further policy discussions.

done, for instance the implementation of the per student financing nation-wide program. These inefficiencies are crowding out productive expenditure in infrastructure and public services, and spreading scarce investment resources too thinly to be effective. Moldova also remains vulnerable to changes in import energy prices with critical effects on social assistance expenditures, as well as on tariffs, debt accumulation and arrears in public utility companies.

10. The current account deficit is expected to remain at single digits in the medium run, and the risks of debt distress remain low. Assuming a lagged positive effect of ongoing structural reforms, higher value added exports would help to narrow the trade imbalance over time. Growth of remittances is expected to be modest over the forecast period. FDI is projected to gradually increase if the business climate continues to improve. The Joint IMF-World Bank (WB) Debt Sustainability Analysis Update (2012) assesses the risks of debt distress as low. Public and Publicly Guaranteed (PPG) debt sustainability is most sensitive to a shock in output growth, while total external debt is most sensitive to a one-time nominal depreciation shock.

11. Risks to the macroeconomic outlook are substantial. First, a worsening of the debt crisis in the Eurozone could undermine exports and remittance flows. Second, a negative oil price shock could slow Russia's growth further, resulting in a significant drop in remittances from and exports to Russia. Third, a large structural current account deficit increases vulnerability to sudden stops in FDI or external aid. In particular, slippages in implementing macroeconomic and structural reforms could potentially reduce external support and complicate efforts to finance the current account. Fourth, agriculture remains vulnerable to extreme weather conditions. Fifth, while aggregate banking performance indicators show positive trends, significant risks exist due to credit quality and capital adequacy concerns at Banca de Economii (BEM), a majority state-owned bank of systemic importance.⁴ Disorderly resolution of problems with BEM is a risk through contingent fiscal liabilities. Quality of governance and lending to related parties remain potential risks in the financial sector more generally.

D. Poverty, Inequality, and Vulnerability

12. Despite a sharp decline in poverty in the 2000s, Moldova remains one of the poorest countries in Europe. Based on the ECA regional poverty line of USD 5/day at PPP, 94 percent of the population was poor in 2002 but this had declined to 55 percent by 2011. The incidence of extreme poverty (based on the ECA poverty line of USD 2.5/day at PPP) declined dramatically over the same period from 57 to 10 percent. Both rural and urban areas benefited from sharp poverty reduction, but it occurred faster in urban areas. However, based on the ECA regional poverty line, Moldova's poverty rate is double the ECA average, with extreme poverty also significantly higher than the regional average.

13. National poverty estimates⁵ indicate positive trends in poverty reduction. Published reports indicate that national poverty rate fell from 30.2 percent in 2006 to 17.5 percent in 2011. Poverty reduction has been particularly strong for those over 60, especially those living in single person households, 75 percent of whom are women.⁶ Figure 1 indicates that during 2006-11

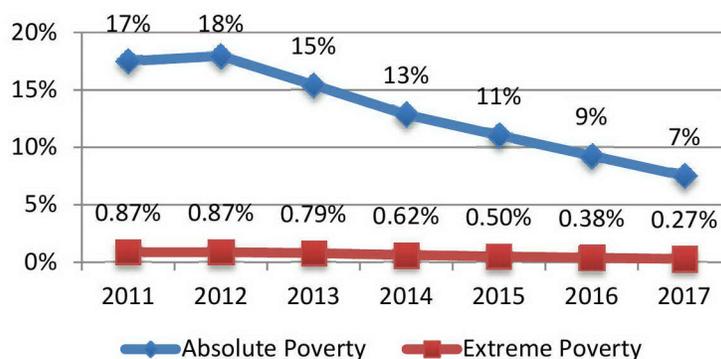
⁴ NPLs increased to 14.5 percent by end-2012 due to weakening economic activity and worsening balance sheets of some banks, including BEM. BEM (with 11 percent of total assets in the banking sector and the largest number of individual depositors) needs urgent action to repair its balance sheet and improve risk management practices.

⁵ The national poverty line was MDL 1093/month in 2011, equivalent to USD 3 dollar/day (current). The national threshold for extreme poverty was MDL 591.2/month in 2011, equivalent to USD 1.6/day (current).

⁶ Interestingly, in this population group poverty declined more for single elderly men living alone (by 52 percent, to 18 percent) than for single elderly women living alone (by 39 percent, to 20 percent).

extreme poverty fell from 4.5 percent to 0.9 percent. Most of the observed poverty reduction has been driven by growth, and the main channels have been private transfers such as remittances, and greater employment and higher earnings. Going forward, based on the current macroeconomic framework, simple projections based on constant inequality show that such positive trends should continue over the CPS period.⁷ This will require consistent monitoring, especially given the continuing debt crisis in the Eurozone, potential weakening of remittance flows, and vulnerability of agriculture to extreme weather conditions. Boosting competitiveness for more and better jobs will be critical.

Figure 1: Baseline (2011) and Poverty Projections (2012-17)



Source: Household Budget Survey (HBS) 2011 and World Bank staff calculations.

14. **Moldova’s recent economic performance has promoted shared prosperity** (see Box 1 on WBG poverty and shared prosperity goals). Growth in consumption of the bottom 40 percent of the population outpaced average growth (estimates for 2006-11 suggest an annualized overall growth in consumption of 2.9 percent over the period, as compared to 5.8 percent for the bottom 40 percent). Decomposition analysis shows that labor market developments helped the bottom 40 percent by increasing the returns to labor. Estimates in 2011 also show a statistically significant association between educational attainment and income levels for both the top 60 percent and bottom 40 percent of the population. However, the bottom 40 percent tend to have lower education attainment, and quality of education is an issue, with rural students lagging behind their urban peers by more than a year of schooling.⁸ This calls for reallocation of resources from maintaining an oversized schools network towards funding quality programs in consolidated schools in rural areas where most of the bottom 40 percent live. The bottom 40 percent are particularly affected by weaknesses in the quality and efficiency of education (and health) services. The Life in Transition Survey (2010) indicates that for primary and secondary education, as well as for health services, satisfaction with public services was lower among the bottom 40 percent than the top 60 percent. Gender factors, captured by the gender of the

⁷ These projections do not factor in any type of distributional changes, such as those that could come from an expansion of social assistance – to the extent that the ongoing trends in reducing inequality continue, these projections might underestimate the extent of poverty reduction over the CPS period. Also, the high vulnerability of the Moldovan economy described in the previous sections should not be underestimated.

⁸ The OECD Program for International Student Assessment (PISA) tests 15 year-olds competencies in reading, mathematics and science, and assesses how far students near the end of compulsory education have acquired the knowledge and skills that are essential for full participation in society. According to PISA 2009 Plus results, Moldova’s quality of education remains at the bottom of Europe. The scores were particularly low in rural areas that account for 57 percent of student population.

household head, appear to have played no statistically significant role in explaining the growth of either group, though non-income dimensions warrant a continuous focus on gender.

Box 1: WBG goals of ending extreme poverty and promoting shared prosperity: Moldova

The WBG has recently adopted two new goals to anchor its overarching mission of a world free of poverty and to galvanize international and national efforts in this endeavor: ending extreme poverty by 2030 globally and promoting shared prosperity.

National estimates of extreme poverty in Moldova in 2011, measured on the basis of a MDL 591 per adult equivalent poverty line, already show that extreme poverty has been all but eradicated in the country. A similar assessment can be reached using the poverty line of USD 1.25 a day at PPP used to monitor the extreme poverty target at global level. Arguably, however, the global poverty line, calibrated to reflect the poverty lines of the 20 poorest countries in the world, does not do justice to the nature of poverty in Eastern Europe and Central Asia. Applying the same methodology - as at the global level - results in the ECA extreme poverty line of USD 2.50 a day at PPP. This reflects the significant onus that the region's variances in weather put on households in terms of higher caloric requirements, and higher expenditure on energy, clothing and transportation. Thus, despite the significant progress in the recent past, Moldova's extreme poverty is still higher than the region's average, suggesting that the WBG global goal of ending extreme poverty remains relevant for the country and for this CPS.

The second goal focuses on the promotion of wellbeing of the lower 40 percent of the distribution. It underscores that while growth is necessary, countries should aspire to growth processes of which the less well-off are integral parts. Moldova's recent performance is rather positive. The overall growth pattern over the last five years (2006-11) shows that lower income groups have experienced higher growth rates than better-off groups. This pattern also explains why inequality has decreased.

Going forward, this CPS will support an agenda on knowledge and learning that will deepen our understanding of the main drivers of poverty reduction and shared prosperity. In particular a Poverty Assessment has already been planned for FY15.

15. **The bottom 40 percent are particularly vulnerable to climate change risks.** Forty percent of people in Moldova are extremely concerned about climate change, the highest proportion in Europe and Central Asia according to the Life in Transition Survey, 2010. While the bottom 40 percent of the population is equally concerned about climate change as the top 60 percent, given the concentration of poverty in rural areas, the effects of climate change on agriculture represent a major threat to the bottom 40 percent. Rural poverty rates in Moldova remain high at 30 percent (to compare with 10 percent in urban areas in 2010). Poverty rates are highest among farmers and agricultural workers (at 36 and 45 percent respectively) and, together, these two categories account for 40 percent of Moldova's poor. They are also most vulnerable to climatic risks such as higher frequency of droughts or floods.

16. **Progress in achieving the Millennium Development Goals (MDGs) in Moldova has been uneven.** The poverty and the under-5 mortality targets are likely to be met. However, fluctuations in several goals in recent years give rise to questions as to whether all 2015 national MDG targets will be met. Among the areas of concern are maternal mortality rates (MMR), incidence of HIV and rate of mortality associated with TB. A comprehensive discussion of the MDG status is provided in Annex 5.

E. Social Context

17. **Certain groups remain at high risk of poverty and vulnerable to social exclusion.** The most vulnerable groups at risk of poverty remain those with low education levels, households with three or more children, those in rural areas, families relying on self-employment, the elderly, and Roma population.⁹ UNICEF (2011) reports that only 16 percent of families with children in the poorest quintile are receiving social assistance through the *Ajutor Social* program.¹⁰ Vulnerability of the elderly is a particular concern given population aging trends. UNDP (2007) shows poverty incidence of 59 percent among Roma population in 2007, compared to the national average of 24 percent.¹¹ Roma children are less likely to attend school (43 percent compared to 6 percent for non-Roma children), and only 23 percent of Roma households have medical insurance compared to the national average of 78.6 percent.¹² There is little gender differentiation in poverty rates.

F. Gender

18. **Moldova performs well in some areas of gender equality.** Gender equality is included in the constitution and elaborated in the 2006 Law on Equal Opportunities for Women and Men. The 2008-15 National Strategy on Gender Equality establishes policy objectives on gender equality and priority actions. Moldova has ratified a broad range of international conventions that mandate gender equality, including the MDGs and the International Convention on the Elimination of All Forms of Discrimination against Women.

19. **Yet in other areas disparities remain.** While the policy foundation for gender equality is laudable, patriarchal norms have been resistant to change. Gender equality policies and norms have not been supported by adequate resources and implementation. Public authorities such as courts have been unwilling or unable to apply gender equality laws. Life expectancy is among the lowest in Europe, at 73 years for women and 65 years for men. A wide gender gap in age is driven by the high male mortality rate, in part resulting from lifestyle choices by men consuming large amounts of tobacco and alcohol. Gender gaps in education are most obvious at the tertiary level, with only 33 percent of enrolled men compared with 44 percent of women. Secondary and tertiary schools appear to be the beginning of occupational segregation, which eventually results in gender segregation in the labor market (see Annex 4). Partly due to this sector segregation, women earn 73 percent of what men earn and are less likely to advance to leadership posts, and only 8 percent of firms have any female ownership. Female participation in leadership is low: only 20 percent of female MPs and representation is even lower in other areas of government.

20. **Human trafficking is a critical issue in Moldova as a source country, and to a lesser extent a transit and destination country, for both sex trafficking and forced labor.** It is estimated that Moldova has one of the highest rates of human trafficking among neighboring countries.¹³ However, substantial improvements were achieved through implementation of the national action plan, and the structure of the anti-trafficking national system is built on multi-

⁹ The size of the Roma population is not known. The 1989 census established the number at 11,600 (0.3 percent of the population), and the 2004 census enumerated 12,271 “gypsies”. Census data probably underestimates the actual size of the Roma population, which some estimates put at 100-150 thousand.

¹⁰ UNICEF 2011, Impact of cash transfers on poverty and well-being of the most vulnerable families in the Republic of Moldova, within the context of transition from category-based to means-tested social assistance.

¹¹ UNDP 2007, “Roma in the Republic of Moldova”.

¹² UNDP 2011, “National Human Development Report: From Social Exclusion Towards Inclusive Human Development”.

¹³ GfK 2006. Human trafficking survey: Belarus, Bulgaria, Moldova, Romania, and Ukraine. Prepared for IOM in Ukraine.

agency cooperation, including with civil society.¹⁴ Research has also linked human trafficking to domestic violence, and an estimated 40 percent of Moldovan women have been victims of at least one violent episode.¹⁵ Measures taken within the legal and regulatory framework have not sufficiently addressed domestic violence, and the level of public awareness remains low.

II. Development Challenges and Government Program

21. **Moldova has made significant strides in its economic and political transition, but much remains to be done.** Moldova lags far behind the rest of the region as a result of policies and history. It has a small domestic market, with limited competition and weak drive for innovation. Yet, these challenges could be overcome by reducing the economic distance to larger regional markets and reaping the benefits of openness. Unfortunately, Moldova has high cross-border economic costs as evidenced in its 132th rank of 155 countries in the 2012 Logistics Performance Index. Why Moldova is not taking advantage of its proximity to wealthier regional markets can be analyzed through its endowment of institutional, human and natural capital.^{16 17}

Institutional Capital: Governance and Business Enabling Environment

22. **Moldova has made progress in legislative reforms for improved governance but poor enforcement creates governance challenges.** Institutional and administrative capacity remains weak, but perhaps more crucial are concerns regarding transparency, accountability and corruption. Although Moldova improved its position in the Transparency International Corruption Perceptions Index from 112th of 180 countries in 2011 to 94th of 174 countries in 2012, it is still poorly ranked in comparison with its neighbors to the west. Although Moldova's overall rating in the 2012 Country Policy and Institutional Assessment (CPIA) improved to 3.8, it scored only 3.5 out of 6 in the 2012 CPIA *Transparency, Accountability and Corruption in the Public Sector* indicator, reflecting challenges including corruption, poor accountability mechanisms, and politicization of the judiciary. Moldova's lowest CPIA score (3) corresponds to quality of public administration. Although legislation is in place, better enforcement is needed to make it more effective and reduce the incidence of corruption. The anti-corruption body is vested with significant powers but has a modest performance record, and there is a public perception of an agency over-reaching itself in fighting petty crimes or one used for political purposes.

23. **There is still progress to be made in building the capacity of the public sector to perform better.** Improved strategic planning and policy coordination and mechanisms to establish a professional and merit-based civil service have created a good foundation for a more effective and efficient government. However, public administration will need to continue to enhance public sector capacity by better defining performance targets, evaluating budget programs, and allocating resources to priority programs more strategically – all leading to increased transparency, accountability and efficiency. Recent legislation to introduce the position of state (permanent) secretary should further professionalize the civil service. Its implementation requires new regulations on competences, appointment, and other human resource management procedures, as well as support to capacity building of a new cadre of state secretaries.

¹⁴ 5th Progress Report of the European Commission on the Implementation of the EU-Moldova Visa Liberalization Action Plan from June 2013: *Assessment Block 3 / topic 1b - Preventing trafficking in human beings.*

¹⁵ U.S. Department of State, 2010. Human Rights Report on Moldova. <http://www.state.gov/documents/organization/160203.pdf>

¹⁶ ECA Regional Diversification Flagship “Diversified Development: Making the most of Natural Resources in Eurasia”.

¹⁷ Moldova does not fare well on a fourth dimension of physical capacity, but this could be addressed with progress under the other dimensions: e.g. more effective government and better business climate could accelerate the public and private financing of much-needed infrastructure.

24. **Despite reform efforts to improve the business enabling environment, there is still much work to be done.** Moldova ranks 83rd in the world on the “Doing Business” index, scoring especially poorly in dealing with construction permits (168th), trading across borders (142nd), and paying taxes (109th). It ranked 87th out of 144 economies on the 2012-13 Global Competitiveness Index, lagging behind most of its neighbors and countries in the Commonwealth of Independent States (CIS). More needs to be done to attract FDI without granting revenue-eroding tax concessions. Customs and tax administration suffer from lack of transparency and a high degree of discretion applied by officials. Companies cite unfair competition in domestic markets, primarily from companies using various tax evasion schemes and those protected by political and business interests through restrictive policies of various state agencies. Competitiveness and the ability to penetrate new markets are a problem, with very little expansion of Moldovan products (versus additional processing of imported goods) to new destinations. Vocational and tertiary education needs to improve to meet labor market needs, especially in export-oriented sectors.

Box 2: ICT – an enabler of economic growth and good governance

The Digital Moldova Strategy supports the development of the Information and Communications Technology (ICT) industry and good governance through improved public service delivery. The WB is supporting these through the Governance e-Transformation (GeT) project. Moldova’s EU aspirations motivate continued modernization of administrative systems. An agenda of improving access, equity, effectiveness, and efficiency of public services is unfolding but will require sustained efforts and investments in information infrastructure.

ICT infrastructure is improving but needs further development. Telecommunications reforms have spurred competition, but the state still plays a dominant role. Rural areas are not completely covered by broadband services. Infrastructure gaps could be closed through reforms of the state’s role, and strengthened independent regulator’s role. Moldtelecom needs to be prepared for privatization, and more concerted efforts could be made to increase access to and use of ICT in rural areas, and to ensure efficient management of the radio spectrum to maximize the impact of wireless telecommunications.

A main constraint is the limited talent pool in ICT. University education in the ICT sector is of inconsistent quality and curricula are not relevant to the job market. There needs to be a concerted effort to bring more women in the ICT sector, especially in technical fields where they are still under-represented. Such improvements would set the stage for a new generation of ICT innovators.

25. **The Government has introduced reforms to the statutory framework for corporate financial reporting and adoption of modern financial reporting and auditing standards, but enforcement remains weak.** The Government adopted new accounting and auditing laws in 2007, which are based on the EU *acquis communautaire* principles, and has undertaken some steps towards their implementation, such as official adoption of International Financial Reporting Standards (IFRS), establishment of the audit public oversight function and a public registry of financial statements. Constraints to full implementation and enforcement include poor awareness of the importance of accurate and transparent disclosure of financial information, and the EU requirements on corporate financial reporting. Other constraints are poor capacity and limited understanding of the Ministry of Finance’s role in setting policy and accounting standards, weak professional accountancy education and limited capacity of the audit public oversight system.

26. **Financial intermediation remains underdeveloped and access to finance continues to be one of the most important constraints cited by companies.** The banking sector generally remains liquid, well capitalized and profitable, other than BEM, but credit to the private sector is only 38 percent of GDP, an indication of the relatively low level of financial intermediation

compared to other ECA countries. Financing at terms longer than one year is scarce, collateral requirements are relatively high, and many small and medium-sized enterprises (SMEs) do not have the type or quantity of collateral required by banks. Although interest rates are in line with comparator countries' rates, companies perceive that they are high, reflecting demand-side issues of low and inconsistent enterprise profitability. In addition, alternatives to bank financing remain limited. The capital market is nascent and the government bond market consists of only short-term issues, with almost no secondary market trading. Developing the capital market can create competition with the banking sector and provide companies with more financing alternatives and longer-term deposit instruments against which banks can provide longer-term loans.

27. Agriculture remains a mainstay of the economy and a major income source for the bottom 40 percent, although agricultural output is volatile and low market competitiveness is a key bottleneck. With 12 percent of GDP, agriculture trails the service and manufacturing sectors, but it employed 28 percent of the labor force in 2010, and when combined with the agro-food sector, it represents about 50 percent of total exports. High volatility in agricultural output, namely crops, is a reflection of the high vulnerability to climate hazards like droughts, floods, frosts, and severe storms. Competitiveness is hampered by a complex set of factors, including distortions and imperfections in agriculture input and output markets, poor quality public services in areas like agricultural education, incomplete farm restructuring, underdeveloped land market, lack of access to finance, and unsustainable natural resource management. Most agricultural produce, especially high value products, do not meet market rigor for safety, quality, quantity, variety, or packaging. The private sector needs support to embark on the sophisticated and costly process of adopting and implementing EU food safety and quality standards.

Human Capital

28. Demographic and fiscal realities are a challenge for quality schooling aligned with the needs of the labor market and broader economy. The sector is characterized by an oversized network of increasingly small schools and a high number of poorly paid teachers and non-teaching staff. Of the 1,394 general education institutions, three quarters are located in nearly 1,000 villages, yielding an average of 1.1 schools per village. An average school operates at 54 percent capacity, leading to wasteful expenditures in the form of heating bills and public utilities. A study by the Ministry of Education concluded that up to half of rural schools may need to be reorganized or closed in the next three to five years to respond to the sharp population decline over the last 20 years.¹⁸

29. The Government is acutely aware of the efficiency challenges facing the education sector. With the piloting of per student financing under the WB-supported Quality Education in the Rural Areas of Moldova (QERM) project, the Government took critical steps to improve the efficiency of resource allocation in general education. This commitment was further strengthened by legislative changes to create an enabling environment that allows for the implementation of efficiency reform measures such as the introduction of per student financing nationwide and change in school ownership from mayors to local municipalities.

30. The sector demonstrates uneven education quality. Moldova's performance in the Organization for Economic Cooperation and Development (OECD) Program for International Student Assessment (PISA) 2009 Plus suggested that 57 percent of students lack basic levels of

¹⁸ Policy options to support the school network optimization process in the Republic of Moldova Feasibility Study, IPP, 2010.

proficiency in reading needed to participate effectively and productively in society (61 percent in mathematics). These results show the need to continue consolidating the school network and extending reforms in curricula, student assessments, teacher training, and textbook design.

31. Teacher quality is one of the most important contributing factors to improving student achievement, but Moldova's teaching profession is under-qualified and aging. Of the 36,000 teachers employed in general education institutions, only two thirds hold a teaching qualification and 19 percent are past retirement age. During 2002-07 the share of teaching staff of retirement age more than doubled, indicating a rapid aging of the profession. The standard teaching load of 18 hours per week – equivalent to about 666 instructional hours per year – is light compared with that of teachers in OECD countries,¹⁹ but in small rural schools teachers cannot fill even the basic 18 hour load. Resources for teacher training are spread too thinly across a large number of under-qualified teachers, leading to under-investment in the current and future workforce. Recruitment, training, accreditation, quality assurance, and incentives for both teachers and school directors are key areas that require alternative and modern systems.

32. Human capital is one of Moldova's potential comparative advantages but businesses, especially exporters, complain of difficulties finding skilled workers. As many as a third of enterprises have problems in filling vacancies, especially for skilled staff. The most affected sector is construction (92 percent), followed by industry (69 percent), transport, business services and health services (67 percent each). While the problem is mainly attributed to low wages (54 percent of respondents) it is also a function of low level of skills (35 percent). The latter is mainly attributed to the lack of education relevance to labor market needs. Some foreign investors in the manufacturing sector have particularly highlighted the lack of adequate technical skills among the labor force as a constraint to their operations in Moldova.

33. The health sector reform agenda remains unfinished. The Government has increased spending on health in recent years and implemented important reforms such as the establishment of the National Health Insurance Company (NHIC) in 2002 and development of primary care. However, challenges remain in the delivery of health care and in health financing.

34. Four key challenges affect health care delivery: (i) funds for hospital care (more than 50 percent of the total) are currently spread thinly over 72 facilities, many of which are underutilized and unsafe, alongside the problem of duplication, which is particularly severe in Chisinau; (ii) there are obvious duplications in the laboratory network; (iii) primary care doctors are not accountable for their performance and despite ten years of investments in primary care, most patients go directly to hospitals, further exacerbating the issue of underutilization of primary health centers; and (iv) dilapidated hospital infrastructure, with obsolete equipment.

35. Health financing is under stress. Most people get free insurance coverage: about 1,800,000 out of 2,700,000 insured do not pay contributions. It is difficult for the NHIC to fulfill the Government's promise of completely free care for a broad set of services, and out-of-pocket spending is at 45 percent of total spending, i.e. about USD 100 per year per capita. The bottom 40 percent spend a higher share of their income in out-of-pocket spending. There are no financial incentives for providers and doctors to become more efficient or provide better quality services.

¹⁹ In the Netherlands, for example, the load is 1,000 hours per year and in France it is 923 hours.

36. **Despite Government efforts to improve transparency, accountability and openness in public service delivery, governance challenges remain, especially in health and education.** Informal payments in these sectors are widespread, and are a factor of exclusion for the poor. They also undermine the current health insurance system, the Government's stated commitment to the education sector and the integrity of the education national testing systems.

Box 3: Supporting investments in human capital through enhanced access to social infrastructure

The Moldovan road network (excluding Transnistria) has changed little over the last 20 years, and shortfalls in road maintenance have been exacerbated by increased economic activity, with higher traffic volumes putting more strain on debilitated roads. Almost two thirds of roads are classified as local roads but less than half of local roads are paved.

The focus on rehabilitation rather than further expansion has considerably increased resources for road maintenance during the last four years, together with important road rehabilitation works, funded largely from external sources. These investments are gradually improving road conditions but have benefitted national roads almost exclusively. Local roads continue to be in poor condition, which hampers rural people's access to markets as well as to social and administrative services. This hinders the effectiveness of programs in other sectors, e.g. the school consolidation program depending on efficient and reliable transport for students to hub schools. Good local and main roads are also critical to Moldova's model for future economic and social development based on export-led growth, making use of its agricultural potential and advantageous conditions for further developing light industries.

37. **Moldova operates an extensive social protection system but inefficiencies and demographic changes threaten its financial sustainability.** The social protection system includes both contributory social insurance and non-contributory social benefits. Total social protection spending in Moldova is large by regional standards: it grew from 9 percent of GDP in 2003 to 11 percent in 2011. Of this, almost 9 percent of GDP was spent on social insurance (mostly pensions), and about two percent was used for non-contributory social assistance programs. The rapidly aging population and shrinking labor force create multiple pressures on the social protection system and call into question its financial sustainability in the longer term.

38. **The current Pay-As-You-Go (PAYG) pension system faces several challenges.** Pension benefits are inadequate and the system struggles with compliance, weakening incentives to participate and contribute to it. Emigration, unemployment and large informal economy have reduced contribution coverage of the working-age population, from 60 percent in 2002 to 32 percent in 2012. Shrinking coverage has implications for future poverty among the elderly and for social assistance and pensions in the long run. Structural problems need to be addressed to create a fiscally and socially sustainable PAYG system. Fixing the benefits formula and indexation would improve pension adequacy and maintain its real value. Gradually equalizing the retirement age for both sexes at 62²⁰ and then gradually increasing it to 65 will improve long-term fiscal sustainability and provide space for further reforms. The policy package should include measures to strengthen PAYG system incentives through a tighter link between contributions and benefits.²¹ These measures would improve PAYG finances and provide additional fiscal space for PAYG benefit improvements, contribution rate reduction, and/or introduction of a second fully funded pension pillar when the time is right.

²⁰ Retirement age is currently 57 years for women.

²¹ This would include measures such as improving compliance, adjusting minimum pension and contribution levels for self-employed and farmers, reducing opportunity for simultaneous retirement and full-time employment, and difference between general and privileged benefits.

Natural Capital

39. **Moldova's main endowment with natural capital is its highly fertile and productive black soil, but this and other natural resources are under threat as a result of poor environmental practices.** Black soil covers 75 percent of the country, but there are indications that 34 percent of agricultural land is eroded to some degree, this figure rising by 0.9 percent and causing losses estimated at USD 251 million annually.²² Soil erosion and other degradation processes result from poor agricultural practices (tillage, insufficient crop rotations), poor land governance and management, overgrazing and destruction of protective forestry belts and buffer strips. Moldova is the least forest-covered country in Europe, and the modest territory acreage of 11.1 percent is overexploited. Access to centralized potable water supply is the privilege of only 47 percent of the population. In rural areas, more than 80 percent of the population draw their water from groundwater sources, many of which do not meet quality standards for potable water because of pollution from untreated wastewater, inappropriate management, storage and disposal of animal manure and waste, and nutrient run-off from agricultural fields.

40. **Climate change will exacerbate the stress on natural capital through more frequent and intense extreme weather events, and adaptation and capacity building measures should be a high priority.** The severity and frequency of extreme events have increased over time (e.g. droughts of 2007 and 2012 and heavy flooding in 2008 and 2010), and are predicted to continue growing. Moldova is getting warmer and dryer. The 2009 National Human Development Report²³ has reviewed the impact of climate change on many sectors²⁴ and provides a strong basis to expand national knowledge/resources to address climate change and build resilience.

41. **Moldova is particularly vulnerable to the impact of climate change because of structural factors and severe adaptation deficit.** Risk factors include a high percentage of the population employed in agriculture, dependency on rain-fed agriculture with less than 10 percent of agricultural production from irrigation, poor infrastructure (about 40 settlements are cut off annually due to transport disruption), and high rural poverty. Work has already been undertaken to identify the impact of climate change on agriculture,²⁵ but more investigation is required into the impact on other areas, such as water supply systems and rural infrastructure. Agricultural technologies to mitigate climate change risks, i.e. drought-resistant seeds and seedlings, need to be imported but the restrictive import regime is a serious impediment to quick transfer of technology. Moldova ranks 23rd out of 28 ECA countries on adaptive capacity to climate change from years of underinvestment in infrastructure and legacy of poor environmental practices.²⁶

42. **The forestry sector plays an important role for competitiveness and climate change but has not received the attention it deserves.** Low forest acreage is a significant factor contributing to the high level of soil erosion, landslides, degradation of water resources, and intensified droughts.²⁷ It also contributes to floods. Capacity to enforce forest legislation has improved recently although the state of communal forests remains a concern. There is potential for scaling up afforestation activities that would generate additional revenues, mitigate natural hazards and land degradation, and provide new financial resources from the world carbon

²² United Nations Economic Commission for Europe, 2005, "Second Environmental Performance Review in the Republic of Moldova".

²³ UNDP 2009, "National Human Development Report".

²⁴ These sectors are: natural ecosystems, agriculture, water supply and sanitation, health, energy and transport.

²⁵ World Bank 2010, Republic of Moldova: Climate Change and Agriculture Country Note.

²⁶ The World Bank, ECA Region 2009, "Managing Uncertainty: Adapting to Climate Change in ECA countries".

²⁷ UNECE 2005, Second Environmental Performance Review.

market. Further research on the economic and social benefits of forests, including their role in providing ecosystem services, may inform a new national forest strategy to best meet sector needs in support of the country's economic development and climate change agenda.

43. **If adaptation actions are not taken, water scarcity will increase, leaving a gap in unmet irrigation demand.** Increasing irrigation water demands means that climate change will lead to conflict over water resources. While much of this conflict is expected to be in local municipalities, decreasing Nistru River resources could also exacerbate Moldova-Transnistria relations, as there has never been an agreement on how to use Nistru River resources although there are right-bank Moldovan towns still receiving their water supply from Transnistria. River basin specific water modeling suggests that even without climate change, increases in non-agricultural demand for water will cause shortages in the next decades. Integrated Water Resource Management (IRWM) becomes a key element of the adaptation agenda.

44. **Energy efficiency is low with adverse fiscal, trade, security and social impact.** Moldova's economy has high energy intensity, twice the level of Romania and about three times that of the EU28. Increased efficiency will reduce energy imports that are 24 percent of total imports, and will help alleviate pressure on the large current account deficit. Furthermore, the high cost of energy supply due to inefficiencies caused by deteriorating and obsolete infrastructure poses a threat to the welfare of the bottom 40 percent and vulnerable population in Moldova, as well as a serious bottleneck to growth and competitiveness of the national economy.

45. **A number of governance challenges need to be addressed to enhance human capital.** This includes coordination of environmental issues, currently spread across the Ministry of Environment, the State Forestry Agency, the State Cadastral Agency, and the Ministry of Agriculture. Climate change considerations are not integrated into the majority of government policies. Forest governance has been weak, but is being strengthened with support from the European Neighborhood Partnership Instrument (ENPI) East Countries Forest Law Enforcement and Governance (FLEG). Legislative and regulatory issues impede agricultural land markets' good functioning, including incomplete/incorrect title records for land parcels, cumbersome land inheritance procedures, excessive and irregular notary fees increasing land transaction costs, and restrictions on foreign land ownership. Fragmentation resulting from land privatization after independence is a major concern. The overall land governance framework needs improvement.

Government Vision and Priorities

46. **The NDS Moldova 2020, which benefited from a broad public debate, sets seven strategic priorities based on an analysis of binding constraints to growth.** These are justice and fight against corruption; tertiary education; social insurance and pensions; business environment; road infrastructure; accessible and inexpensive finance; and energy efficiency. The NDS prioritizes state interventions to deliver the overarching goal of *qualitative economic development and poverty reduction*. By 2020, per capita income is expected to be 79 percent higher than in 2011, and poverty headcount lowered from 21.9 percent in 2010 to 12.7 percent. The Government held several NDS consultations, including with the National Participatory Council (NPC)²⁸ and development partners. The NDS was adopted as national law.²⁹

²⁸ The NPC's thirty members represent civil society and its mission is to contribute to the development of public policy which represents the interests of society.

²⁹ A comprehensive review of the NDS is presented in the IMF-WB Joint Staff Advisory Note (JSAN).

47. **The NDS is being implemented through a consolidated action plan that reflects the themes of the earlier Government Activity Plan 2011-14 *European Integration: Freedom, Democracy, and Welfare*.** The Activity Plan outlines two major objectives: improving citizens' living standards and European integration. To achieve these objectives, a number of actions are envisaged in relation to social protection, economic development, strengthening the rule of law, job creation, development of relations with external partners, attracting investment, visa liberalization, and other actions that will improve the lives of Moldovan citizens. The Activity Plan includes some measures on inequality in the country and key cross-cutting themes, such as social inclusion and gender equality issues, environmental preservation, climate change and disaster events, and reintegration of Transnistria. Following the formation of a new AEI coalition government, these priorities have been re-confirmed.

III. World Bank Group Partnership Strategy

A. Lessons Learned and Stakeholder Feedback

Lessons from the CPS Completion Report (CPS CR)

48. **Partnerships with the client country are a long-term relationship that should be sustained through difficult times of economic and political uncertainty to reap reform gains when windows of opportunity open up.** The FY09-13 CPS took the opportunity when it arose to support the Government in implementing a challenging reform agenda. However, experience has demonstrated the risk to such an approach – the political environment has remained polarized and challenging, hampering the delivery of key reforms.

49. **Advocacy and political economy considerations should precede difficult social sector and fiscal reforms to avoid weak ownership, opposition or rejection.** Delays in some social sector reforms (including in the health sector and on pension reform) reflect real concerns about their impacts. It may be more appropriate to sequence such reforms through more selectivity and based on broad consultation on how best to address such reform.

50. **The World Bank Group (WBG) is most effective when it combines policy dialogue, knowledge (AAA), lending and private sector investment and advice in support of long-term strategic goals.** It is important to ensure that sufficient attention is given to AAA. Under-investment in AAA can lead to a poor knowledge base from which to develop policy based lending, such as Development Policy Operations (DPOs), as evidenced during this CPS. Evidence-based selectivity for engaging in AAA is required, and to maximize the impact and provide customized world-class knowledge, the WB should systematically evaluate its AAA work, looking especially at its true usefulness in client countries and potential impact. Staff need time and resources to manage AAA, which may be limited if the project portfolio is large and/or fragmented, requiring significant implementation support from staff. A more focused portfolio with fewer projects (and more investment in them) allows greater resources for policy dialogue and support for AAA as needed. The large investments in education and health projects during this CPS have benefited from this approach.

51. **In Moldova, the WBG has an exceptional convening power and ability to coordinate, engage and leverage other development partners on the implementation of a broader strategy.** This was shown clearly in WB support to the transport sector and the development of a strategic plan for the roads sector. Given the limited resource envelope, it is important to work further with other development partners, and the WBG needs to maintain its role as a convener in the development partner community. The WB should seek increased

partnerships with the EU and other development actors to ensure coherence in understanding of and support for critical reforms with a view to achieving maximum impact. A key focus should be on where other partners' resources complement financially the AAA program.

52. CPS preparation also provided the opportunity to learn from earlier WBG experience in Moldova beyond the FY09-13 CPS. The FY14-17 CPS design is anchored on both current CPS CR lessons and those learned from earlier WBG engagement and documented in earlier CAS Completion Reports and Independent Evaluation Group (IEG) Evaluations. The team has also reviewed more specific lessons pertaining to the past and current engagement in agriculture, and considered specific challenges posed in the ICT portfolio – an important area in the Moldova CPS. (See CPS CR (Annex 2 to this CPS) Tables 4 and 5 for details).

Feedback from the Client Opinion Survey and CPS Consultations

53. The FY12 Client Opinion Survey identified growth as the most critical development priority in Moldova. Governance and anti-corruption, job creation, improving the business environment, deregulation and private sector development were also considered important. A quarter of respondents see a key role for the WBG in agriculture, and two out of ten said the WBG should be involved in critical areas of business environment deregulation and private sector development. See Annex 8 for further details.

54. The proposed FY14-17 CPS areas of engagement were the subject of a broad ranging consultation process. Stakeholders consulted included central and local public authorities, non-governmental organizations, academia, youth and students, think-tanks, parliamentarians, political parties, and development partners.

B. Proposed World Bank Group Strategy

Principles of Engagement

55. The CPS stresses selectivity within the available resource envelope and builds on the WBG's implementation track record. The selection of programs is consistent with the Government's development priorities, the WBG twin goals of eliminating extreme poverty and boosting shared prospect in fiscally, environmentally, and socially sustainable ways, and WBG comparative advantages (see Box 4), also recognizing areas where other partners have the lead. Specifically, the WBG will ensure its programs focus on activities that are transformative and yield a large developmental pay-off, especially for the bottom 40 percent. The CPS envisions around three new operations a year for the WB, one of which would be a DPO, should conditions allow, alongside IFC advisory and investment services.

56. The CPS is intended to catalyze additional resources. The CPS recognizes that financial resources for Moldova will come primarily from its citizens (tax and remittances) and other external partners (official and private). The WBG will use its convening power to help these other resources materialize and expand. The CPS will help establish an environment of lower risks, level the playing field for private investors, and bring about conditions for enhanced aid effectiveness. Besides informing the reform agenda through flagship AAA, and supporting these reforms through DPOs and institution-building financing, the CPS will use guarantee instruments, whenever possible in each of the new operations, to draw in other financiers.

57. Governance and gender are cross-cutting themes. This CPS continues to address governance issues at the country, sectoral and operational levels across the strategy. Interventions will be pursued to improve the business enabling environment; enhance public

administration reform and quality of public service delivery; and improve public financial management and procurement systems. The CPS will use a governance filter to ensure that governance is systematically tackled in all operations (AAA and lending); it will also support enhanced involvement of Civil Society Organizations (CSOs) through the Global Partnership for Social Accountability (GPSA) to which Moldova has opted in. At the operational level, WBG will ensure the highest fiduciary standards in projects it supports while helping the Government to strengthen country systems. This CPS is informed by a gender assessment, the outcomes of which will be discussed at the concept stage of each relevant new operation (AAA and lending). Women's groups and development partners active in gender issues have been heavily involved during the CPS consultations, and their feedback reflected in the strategy. The CPS results matrix includes gender-sensitive indicators.

Box 4: One World Bank Group in Moldova

The WBG has a solid record in Moldova. Since establishing partnership with Moldova some 20 years ago, the WB has committed over USD 1 billion, while IFC and MIGA have provided finance and guarantees for over USD 300 million. The close cooperation between IFC, MIGA and the WB reveals the comparative advantage of the WBG while maximizing the benefits to clients in Moldova.

The CPS CR (Annex 2) describes joint achievements in the period of the FY09-13 CPS. Highlights include the Competitiveness DPO (FY13), for which IFC led the analytical work on regulatory reforms. In the health sector, the WB contributed to a new Legislative Framework for Public Private Partnerships (PPPs), and subsequently IFC provided TA to the Ministry of Health for implementation of PPPs in tertiary care and on diagnostic imaging services. MIGA has also continued to offer its guarantee products, ensuring consistency with the overall WBG goals.

The solid foundation is being carried over into the new CPS. IFC and WB are now collocated, facilitating better communication and learning across staff. IFC and WB staff have also identified selected areas for enhanced collaboration and results.

Business Climate and Access to Finance

The WBG will capitalize on IFC's on-going Investment Climate Advisory Services in: (i) business inspection; (ii) construction permits; (iii) insolvency; and (iv) agribusiness regulation and regulatory reform. The WB will seek to link these services to the planned DPO series. In improving SME access to finance, IFC and WB will explore a risk-sharing facility, provided reforms to strengthen shareholder rights are implemented and effective supervision by the NBM is decreasing the reputational risk in the banking sector, while considering complementary advisory services for investee enterprises.

Climate Actions

The WB will assist the Government in the reform of District Heating (DH) Services in Chisinau. Reforms include debt restructuring and corporate reform for the Chisinau DH Company and two Combined Heat and Power companies. The reforms should pave the way for IFC and private investment to improve energy efficiency of DH operations. In turn, the improved operations of DH will improve the creditworthiness of the Chisinau Municipality and may allow energy efficiency investments by IFC. The WB will also carry out a comprehensive energy supply survey that will inform options for feed-in tariffs, thus enhancing the prospects of the investment IFC is considering in the renewable energy field.

Monitoring and Evaluation

The CPS results matrix integrates on-going and planned engagements of IFC and WB. The two institutions will coordinate implementation through joint annual review of progress toward reaching the CPS outcomes. IFC and WB will jointly prepare the CPS PR and the CPS CR.

58. **The WBG is mindful of the political economy of reforms.** The CPS is geared toward helping the Government manage the short-term costs and risks of reforms and reap long-term rewards of credible policy commitments. Policy makers recognize the long-term benefits of reforms, but policy reversals have often been triggered by disorderly management of political risks created by possible adverse impacts of reforms in their initial stages. In the absence of popular support and comprehensive and well-designed risk management, policy makers have not been able to take on vested interests, thus prolonging the status quo and holding back changes that would significantly benefit the bottom 40 percent. The CPS could help accelerate and sustain the pace of reforms by anticipating and mitigating risks, thus locking in policy commitments, and ultimately bringing results that will sustain the reforms in the long run.

59. **The CPS incorporates flexibility for adequate responses to pressing needs that may emerge as a result of headwinds from the Eurozone and beyond.** Responses may include larger balance of payments and budget support to buttress macroeconomic stability, and increased support to means-tested social safety nets mechanisms that cater to the poorest. Flexibility will allow adjustment to the circumstances of new parliamentary elections. A CPS Progress Report (CPS PR) will be prepared after parliamentary elections to allow recalibration.

Strategic Engagement Overview

60. **The CPS recognizes openness as a necessity for Moldova to overcome the penalty of smallness, reach larger export markets and accelerate improvements in wellbeing, shared prosperity and poverty reduction.** Moldova's development gains of recent years offer a clear illustration of the benefits of openness: it has reaped the benefits of integration with the labor markets of its two largest neighbors, bringing with it remittances exceeding USD 1.5 billion a year (about 23 percent of GDP in 2011), and contributing to higher consumption growth for the bottom 40 percent, while bringing extreme poverty – based on USD 1.25/day – below 1 percent. If Moldova is to meet its development priorities and further boost shared prosperity, it needs to expand this integration into regional finance, goods and services markets. Moldova lags behind within the region because of relatively shallow integration into these markets.

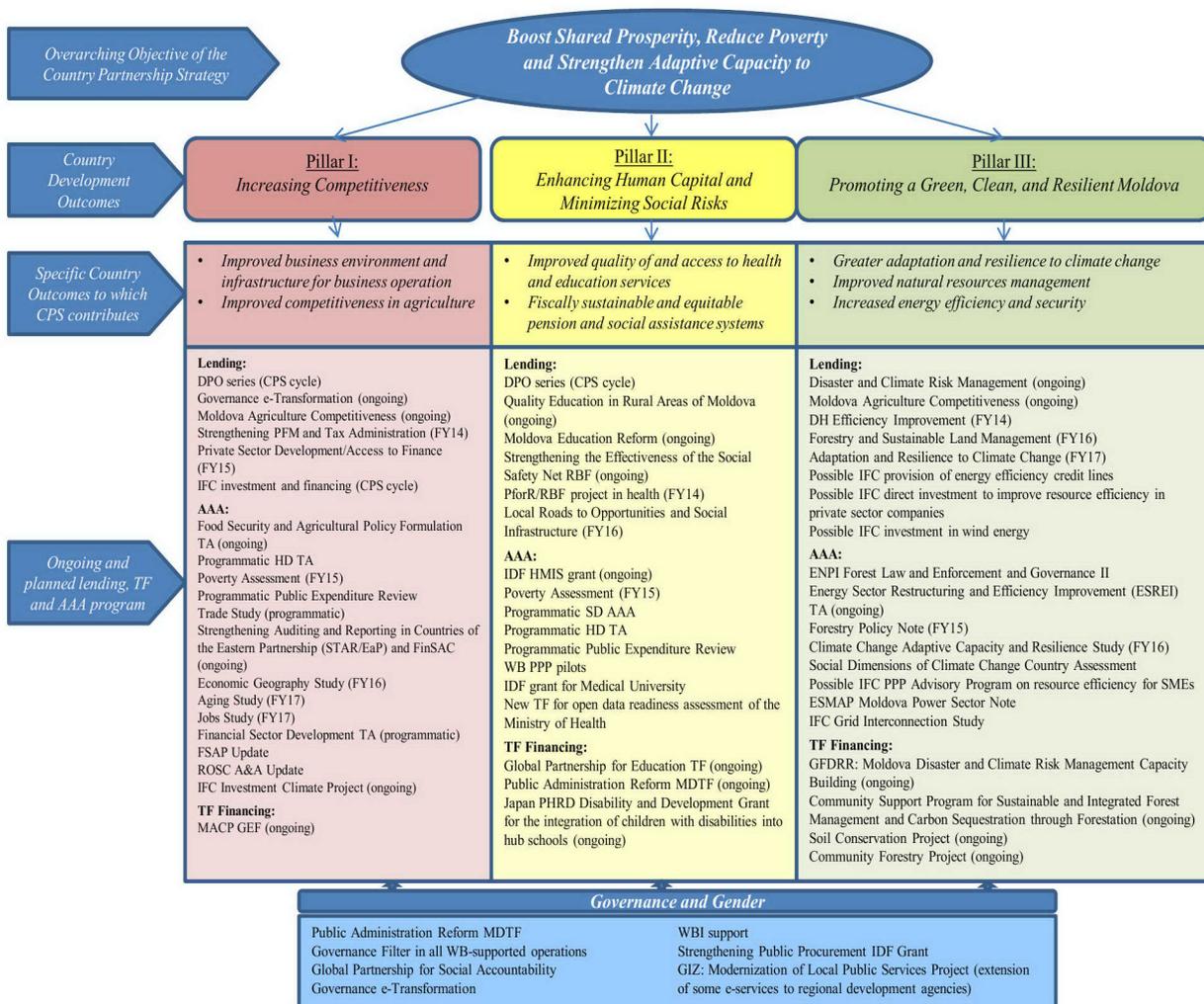
61. **The FY14-17 CPS will support Moldova to boost shared prosperity and reduce poverty by capturing the full benefits of openness and integration with the EU and broader global economy.** Three pillars are proposed, which will help Moldova diversify its endowment of institutional, human and natural capital:

- *Increasing Competitiveness:* continued institutional reforms for a business enabling environment and governance, access to finance and transparency in the financial sector, and targeted activities to help improve companies' competitiveness are needed to reduce barriers and to translate economic openness into concrete benefits of more jobs and higher income.
- *Enhancing Human Capital and Minimizing Social Risks:* The widening gap with EU28 in education and health outcomes needs to be reduced and progressively closed. Demographic challenges – the third transition – need to be addressed, and vulnerabilities would be tackled by strengthening social protection systems.
- *Promoting a Green, Clean and Resilient Moldova:* the debilitating effects of climatic events on agriculture and rural livelihoods need to be addressed, natural resource management improved, and energy security and efficiency increase to ensure sustainable development.

Results Framework

62. **The success of the WBG strategy will be measured by the achievement of CPS outcomes aligned with selected priorities from Moldova’s development strategy.** The results framework identifies outcomes to which the CPS is expected to contribute and provides measurable indicators to assess the achievement of each outcome. The core CPS outcome indicators and links to the proposed lending and AAA program are summarized in Figure 2.

Figure 2: CPS Outcomes and Proposed WBG Program



Pillar 1: Increasing Competitiveness

Outcome 1.1: Improved business environment and infrastructure for business operation
 Outcome 1.2: Improved competitiveness in agriculture

63. **This CPS pillar** will contribute to private sector growth and job creation by supporting an improved business enabling environment and infrastructure for business operation through greater transparency, accountability and governance, in particular in customs and tax

administration, financial reporting and auditing, as well as improved access to finance. The agricultural competitiveness agenda will address the shortcomings identified in paragraph 27. Achieving these CPS outcomes will help deliver the WBG twin goals of eliminating extreme poverty (based on the ECA poverty line of USD 2.5/day at PPP) and boosting shared prosperity given the pro-poor feature of growth in Moldova, reliance of the bottom 40 percent on agricultural income, and their higher vulnerability to weaker governance.

64. Improved competitiveness and business environment will benefit from structural reforms ensuring that: (i) framework laws (competition, capital markets, and inspection) supported by the FY13 Competitiveness DPO are implemented; (ii) regulatory reform, including in customs, is further advanced; (iii) financial sector demonstrates greater stability; and (iv) governance issues, such as property rights and state capture, are addressed. The main instrument for this structural reform agenda will be a DPO series.

65. The CPS will also support the Government in its competitiveness and private sector development efforts through technical assistance (TA). The WBG will provide continued TA in regulatory and business environment, and targeted activities to help improve the competitiveness of high-potential sub-sectors and companies. Activities to improve the business enabling environment will be designed to be consistent with, and help support, the Regulatory Reform Strategy of the Government of Moldova. Improving sector-specific and company competitiveness may include assistance with business development services, management and technical training, and export development. These programs in support of the CPS outcomes will be delivered through an ongoing IFC Investment Climate project, a proposed WB Private Sector Development project and TA.

66. The CPS will also support further reforms and development of the financial sector. This CPS has the goal of establishing a sound system where additional financing sources for enterprises can be developed in the longer term, thus allowing private sector-led growth and job creation. The CPS will assist in reforms aiming at improving the framework for using moveable assets as collateral, particularly benefiting SMEs; further enhancing the system of credit reporting to reduce banks' credit risk; facilitating establishment of modern and effective payment services (including remittances); furthering development of the government bond market; and improving security of shareholder ownership rights, corporate governance standards, shareholder transparency and proper supervision by NBM and National Commission of Financial Market (NCFM), as part of the broader capital markets development effort. Companies' access to finance could be facilitated through a risk-sharing facility that may be developed in conjunction with the IFC, provided that critical governance reforms are implemented in the financial sector.

67. The WB could support, if conditions allow, the strengthening of tax and customs administration to help improve the business climate and enhance revenue collection. The WB will support the Government's plan for implementation of the State Tax Service Development Plan, focused on increasing voluntary compliance and improved service delivery to taxpayers through modernization of institutional procedures and application of modern technologies. Increasing voluntary compliance with customs legislation and facilitating an environment more conducive to beneficial trade may also be supported through the implementation of the Strategic Development Plan of the Customs Service. Better revenue collection could translate into more and better investments in social programs, infrastructure and service delivery for the more vulnerable, including the bottom 40 percent.

68. **This CPS supports improved governance by strengthening public sector management in three core areas:** (i) improved Government performance through the consolidation of strategic planning and policy coordination, better alignment of programs with resource planning, and better evaluation processes for Government programs; (ii) further professionalization of the civil service through introduction of state (permanent) secretaries and strengthened enforcement of merit-based public service management; and (iii) improved access, quality and efficiency of public services through the redesign of service delivery systems.

69. **Public sector management reform is expected to continue, focusing on strengthening management, skills, performance and accountability in the civil service.** The modernization of public services is likely to take an important place in the new Public Administration Reform (PAR) Strategy being developed by the Government. The WB could support this agenda through a trust fund (2014-16), should there be sufficient interest from development partners, including the European Union, to finance a program aimed at strengthening governance. A TA credit could be also an option, based on Government interest.

70. **The WBG will continue supporting the Government's objective to transform the delivery of selected public services using ICT.** Key outcomes include development of open government data applications, launching a government shared computing "M-Cloud" infrastructure, and a set of e-services including mobile eID, and e-Payment. The WB is supporting preparation of an IT competitiveness strategy that will help the ICT sector become an enabler of innovation and competitiveness. The CPS envisions an Additional Financing (AF) to the ongoing GeT project to support implementation of such a strategy and consolidate overall progress under the e-Governance agenda. WB interventions in this area and better service delivery will directly benefit all Moldovans, including the bottom 40 percent.

71. **The WBG can support an integrated approach to addressing the wide ranging food safety area as part of the agricultural competitiveness outcome.** If it is to secure public health and access new markets the country needs to ensure safe food from the farm to the fork. Support for this will come through the ongoing Agricultural Competitiveness project and IFC's Investment Climate project. Given the high percentage of poor living in rural areas and working on agriculture, such WBG support will help reduce poverty and boost shared prosperity.

72. **A number of AAA activities are proposed to support Pillar 1 of the CPS.** These include: a **Trade Study** looking at trade policy, trade agreements, and logistics; a **Poverty Assessment** to inform the overall CPS goal of boosting shared prosperity and reducing poverty, by monitoring recent poverty changes, preparing poverty profiles and better understanding poverty determinants; an **ongoing Programmatic Public Expenditure Review** to continue to analyzing topical issues based on the evolving macro-fiscal picture; an **Economic Geography Study** to look at the spatial dimensions of growth, focusing on existing economic agglomerations and identifying measures to improve and sustain their competitiveness, including coordinated and multipronged interventions encompassing infrastructure, institutions and incentives.

73. **The WB will consider a calibrated engagement in Transnistria, if conditions allow.** This could start with closing knowledge gaps, engaging youth on both banks of the Nistru River, and if and when opportunities arise, joining other partners in implementing confidence building measures in the context of the settlement talks.

Pillar 2: Enhancing Human Capital and Minimizing Social Risks

Outcome 2.1: Improved quality of and access to health and education services

Outcome 2.2: Fiscally sustainable and equitable pension and social assistance systems

74. **This CPS pillar** will provide support to the Government to narrow the gaps with EU28 in health and education outcomes, which result from inefficiencies in both sectors (see paragraphs 28-35). The CPS will provide support to address inefficiencies and demographic challenges facing the social protection systems (paragraphs 37-38). The bottom 40 percent will benefit most from progress under this pillar. Indeed, as reflected in the CPS section on poverty, inequalities and vulnerability, the bottom 40 percent have lower education attainment and higher dissatisfaction with the quality of education and health services. The CPS includes specific targets for improving quality and access to these services for the bottom 40 percent. The most vulnerable will also benefit from a strengthened means-tested social safety net. And, with pensioners among the poorest groups, reforms in that area will help increase equity.

75. **The CPS will support the Government's efforts to improve the quality and efficiency of the education sector.** Efforts will include an effective implementation of per student financing, teacher training, upgraded quality assurance standards implemented for hub schools, and strengthened Education Monitoring and Information System. Support to the Government program will be undertaken through the Moldova Education Reform project (MERP), a success to the QERM that will close in FY14. The CPS also envisions additional financing to the education sector that would reflect lessons learned at the time of the CPS PR.

76. **The WB will support the Government's efforts to align the education system to labor market needs, thus promoting job creation.** WB support will include AAA and TA interventions for informal employment; informing of strategies for workforce development through implementation of the Systems Approach for Better Education Results (SABER); and provision of labor market and education information – through a tracer study and Employment Observatory – so that both students and education institutions can take appropriate decisions in terms of relevant skills for jobs. A Skills Toward Employability and Productivity (STEP) survey may be undertaken among the working age population and employers to measure supply and demand of skills and to better quantify any possible skills mismatch.

77. **Other major AAA in support of the CPS outcomes on human capital agenda include the following – Aging:** A study on aging could be programmatic, covering a broad range of other issues related to aging including labor productivity and growth, fiscal implications going beyond pensions, social service delivery, innovation, competitiveness and savings. This study could be part of a regional flagship study. **Jobs:** Building on the regional Jobs report, the proposed skills survey and the labor market TA, a jobs report could provide a comprehensive picture of growth, diversification, integration, financing, constraints to business growth and entrepreneurship, skill shortages/mismatches, disincentives to work, gender, migration, and labor market issues. Programmatic AAA will support **social accountability** throughout the portfolio.

78. **The CPS will continue to support the implementation of health reforms launched in 2012 with the objective of enhancing the quality of health services while supporting efficiency gains.** The WB and World Health Organization (WHO) TA provided support in the design and launching of the Health Reform Strategy. The WB will support further selected results, including: reduced share of out-of-pocket expenses in total health expenditure;

consolidated hospital network; institutional and financial autonomy for primary health care centers (PHCs), with their payment linked to performance; physical reconstruction of rural PHCs; targeted mechanism for free health insurance for vulnerable groups and greater coverage of mandatory health insurance; strengthened quality assurance systems through licensing of health professionals and stronger accreditation and continuous quality improvement mechanisms for medical institutions. The CPS will support these results through a Program-for-Results (PforR) operation that can provide incentives and coerce policy makers in expediting reforms.

79. **The CPS will support improvements in the efficiency of health and education sectors through TA to support the Government's reform of payment systems in health and education.** The Government is working towards a system of school financing based on the number of students they serve, and hospital financing based on the number of patients they see, adjusted by the severity of their illness. There will be progressive introduction of the principle that money follows the student and patient, allowing facilities to retain efficiency savings and use them to stimulate staff and improve quality.

80. **The CPS will support Moldova's agenda for better access to social services in rural areas, mainly education and health, and improving access by farmers to markets and export opportunities.** Consolidation of social infrastructure is imperative so as to reallocate resources to improving quality and closing the widening human capital gaps with EU28. With the inevitable consolidation of social infrastructure, allowing access to larger regional infrastructure will help reduce opposition to reforms. This support will be provided under a proposed local roads project that will leverage support from other development partners and international financial institutions (IFIs).

81. **Moldova is on track to achieve a more cost-efficient spending mix of its social assistance programs and WB support is instrumental to sustain and enhance these efforts.** The Government is investing in improving benefits administration and management information systems to integrate the overall social safety net around the platform provided by the targeted *Ajutor Social* program. The WB is supporting these efforts through the Strengthening the Effectiveness of the Social Safety Net RBF, which co-finances the interim transitional costs of expanding the *Ajutor Social* program while other benefits are being consolidated. It also invests in improving administrative efficiency, strengthening institutional roles and capacities, operating processes and systems, and communications activities to generate support for reforms. Adopting the reforms and achieving a most cost effective and targeted social assistance program will have a direct impact on the poor and the bottom 40 percent in general.

82. **The WB has a comparative advantage in contributing to the Government's pension reform agenda.** After advising on pension reform policy changes since 2009, including via a policy note that offered a comprehensive review of key issues and made a set of policy recommendations, the WB's technical advice could play a major role in designing the pension reform in Moldova. The DPO has proved to be an appropriate instrument to foster implementation of policy reforms in Moldova, and could support the implementation of necessary policy changes once the Government is ready.

83. **It is crucial to consider the political economy aspects of reforms in social assistance and pension systems, as well as in health and education.** Success and sustainability of any equity-enhancing reforms will depend on how well they are managed and communicated to the larger public. Careful efforts to build public support and ensure stakeholders' understanding are

crucial to the success and political sustainability of reforms that involve cost-cutting or fiscal austerity and redistributive effects. Specifically, the WB should be ready to support the Government in seeking to adopt and implement sensitive pension reforms. To help garner greater consensus and demand for change, further WB engagement will include advocacy elements.

Pillar 3: Promoting a Green, Clean and Resilient Moldova

Outcome 3.1: Greater adaptation and resilience to climate change Outcome 3.2: Improved natural resources management Outcome 3.3: Increased energy efficiency and security

84. **This CPS pillar** will support Moldova to identify and implement interventions supporting improved environmental practices and natural resource management, and greater adaptation to the impact of climate change, as reflected in paragraphs 39-43. Addressing climate change impact will require further investigation to identify high-impact interventions. WBG support under this pillar will continue to enhance the country's energy efficiency and security. It will aim at ensuring that poverty reduction and shared prosperity are delivered in an environmentally sustainable manner, while also reducing the vulnerability of rural households, which represent a disproportionately high share of the bottom 40 percent and largely rely on self-produced foods, to the vagaries of extreme weather events. Rural food security indicators show clear downturns in the production-distress years, and in some cases these lead to longer-term negative consequences and chronic food insecurity³⁰. The CPS will assist in improving underdeveloped weather mitigation instruments as part of adaptation efforts, which leave the rural population, farmers in particular, highly vulnerable to adverse weather events, thus compromising their food supply.

85. **The CPS will help Moldova convene broad support to tackle the significant challenges of preserving its natural capital and adapting to a warmer climate.** A series of AAA products will build the knowledge base and will mobilize partners for sustained financial and TA support to Moldova. These will include: a Forest Policy Note and a Climate Change Adaptive Capacity and Resilience Study, and an ongoing Land Governance Assessment Framework. In addition to the ongoing Disaster and Climate Risk project and TFs such as the Soil Conservation and the Community Forestry projects, this CPS is proposing a Forest and Sustainable Land Management (SLM) project that will halt the degradation of lands and restore agricultural productivity, hence contributing to better natural resource management.

86. **Improved adaptive capacity to climate change is high on the CPS agenda.** Expected results include strengthened resilience and improved natural resource management, adopted green technologies and practices in agriculture, climate proofing infrastructure, e.g. roads, and existence of alternative risk insurance mechanisms (e.g. catastrophe bonds, contingency schemes), as the scope for parametric crop insurance mechanisms is limited.³¹ Support may include IWRM and renewable energy. The final scope of WB support will be determined following a thorough AAA on adaptation challenges. The CPS will also tap into the opportunity

³⁰ The calorie intake of rural households dropped sharply in 2007 (Moldova's worst drought in decades), and reached a peak low level over the next 2008 year marked by country-wide floods and rising food prices. By contrast, urban residents passed through the shocks of the last six-seven years (drought, floods and food price rises) with notable improvements in all food security outcomes. (Source: WB Moldova Food Security Report, draft)

³¹ World Bank 2010, Republic of Moldova: Climate Change and Agriculture Country Note.

of open data platforms for sharing important hydrological (projected peak river flows) and meteorological (weather forecast, early warning systems) data for climate risk management, and will seek partnerships with other development partners.

87. **The CPS will also provide support to Moldova's energy efficiency improvement agendas.** Proposed interventions will finance investments in district heating (DH) systems to contribute to improved energy efficiency and decreased energy demand while improving the quality of heating services through installation of individual heating stations, metering and temperature controls; and further investments in insulating buildings. This will result in significant energy savings. Investing in efficient new technologies will also reduce the cost of energy supply. The proposed DH Efficiency Improvement project will also prepare an IBRD Partial Credit Guarantee (PCG) to support the restructuring of payment arrears on gas, which have accumulated as a result of below-cost recovery level tariffs for heating. The PCG will allow the resolution of the debt issue in a structured manner, and initiate a process in which the Government may work towards improving the business climate to attract private sector investments to the energy sector as well.

88. **Another important AAA to support the energy efficiency goal is an Energy Sector Note to support the Government in diversifying supply and integration with regional trade and markets.** The study would explore various energy market structures and trading models, including technical, environmental and economic aspects, considering the costs associated with required regulatory reforms and investments and benefits on improved energy supply, and is expected to recommend a market structure and investment alternatives to reduce the overall cost of supply. It will explore ways to strengthen the synergy and incentives between adaptation and mitigation actions, as Moldova prepares itself to abide by the EC limits on GHG emissions. This should enhance opportunities for the advancement of innovative technologies and alternative sources of energy consumption.

C. Implementing the FY14-17 CPS

World Bank Group Resources

89. The financing envelope for this CPS includes IDA and IBRD funding, IFC investment, and advisory services, MIGA guarantees, and development partner trust funds and co-financing, and grant resources from global programs, fully integrated into the CPS. A summary of proposed lending is attached in Annex B3, and of proposed AAA in Annex B4.

90. **IDA: The CPS period (FY14-17) spans two IDA replenishment periods (IDA16 for FY14, and IDA17 for FY15-17).** The IDA16 allocation is Special Drawing Rights (SDR) 100.9 million, equivalent to about USD 150 million. Commitments for IDA operations up to FY13 are equivalent to USD 109.2³² million, leaving a balance of USD 40.8 million. There remain significant uncertainties on Moldova's IDA 17 allocation,³³ and this CPS tentatively assumes an allocation of SDR 100.9 million, similar to IDA16. Moldova is now creditworthy, and as a blend country can access IDA hard term credits from FY14. Preliminary estimates are that such access will be less than USD 1 million a year. Moldova could potentially access the IDA Crisis Response Window for severe economic shocks and natural disasters. Given the prevalence of

³² This includes a USD 10 million Drought Emergency Operation approved by the Board in March 2013.

³³ IDA17 allocation for Moldova will be determined based on the size of the IDA 17 replenishment, Moldova's performance rating as reflected in CPIA and portfolio scores relative to other IDA countries, GNI per capita and population.

such disasters, flexibility of the IDA Immediate Response Mechanism will be embedded in selected investment operations.³⁴ With a per capita income of USD 2,070 far exceeding the IDA operational cut-off, Moldova needs to be prepared for a possible IDA graduation by the end of the IDA17 cycle. To allow a gradual phase-in of IBRD, this CPS will front load the IDA allocation in FY15-17, and therefore the DPO may be funded through IBRD resources by the end of the CPS period. As Moldova becomes a blend country, IDA resources will be used for investment in public goods and projects with high social returns.

91. **IBRD: A 2012 assessment recommended that Moldova be considered creditworthy for IBRD borrowing.** Moldova was classified as IBRD following independence, reclassified as blend in 1997 and IDA only in 2000 as income fell sharply during the country's transition. Per capita GNI is now well above IDA operational cut-off. The assessment concluded that Moldova is creditworthy based on fiscal discipline, low debt, and a reform path to greater integration with the EU, including a DCFTA. Moldova's creditworthiness could be at risk as a result of vulnerabilities stemming from a large current account deficit, dependency on remittances; governance concerns due to the influence of vested business interests in politics, and judicial system weaknesses; and complications from the unresolved Transnistria situation. IBRD exposure as of December 31, 2012 is USD 45 million. Existing IBRD loans are scheduled to be fully repaid by FY18. IBRD lending is planned at about USD 200 million over the CPS period, of which USD 80 million will be a Partial Credit Guarantee, but the actual level will depend on government demand, Moldova's performance in the CPS period, choice of lending instruments, and IBRD's lending capacity and demand from other borrowers. IBRD resources will be allocated to projects with high private return and those that will strengthen creditworthiness.

92. **IFC: IFC's operations in Moldova will continue to focus on investment and advisory activities that enable private sector growth and diversification in support of the proposed CPS pillars.** Investments in key sectors, including agribusiness and related industries, will aim at supporting competitive players, raising standards of service provision, providing an important demonstration effect, and attracting additional investment. Given supportive market conditions, IFC will seek to strengthen the financial system, support trade and increase access to finance for micro, small, and medium enterprises (MSMEs) across sectors through advisory and investment in financial intermediaries. IFC also aims at attracting private sector investors to develop infrastructure, including through PPPs and other instruments. IFC's Investment Climate Reform advisory program, which focuses on regulatory streamlining and investment promotion in agribusiness, will target direct compliance cost savings to businesses of around USD 6 million by the conclusion of the project. IFC plans an annual funding envelope of about USD 30 million. IFC exposure as of June 30, 2013 is USD 90.3 million in 18 clients across the financial, manufacturing, agriculture, telecommunications, water and energy sectors.

93. **MIGA: The net exposure of MIGA in Moldova at the end of 2012 amounted to USD 17.8 million in four projects.** All projects are in support of foreign banks' subsidiaries in the country, including micro-finance organizations and leasing operations. MIGA's continuing support to these projects signals the Agency's efforts to underwrite projects in Moldova, encourage inward FDI, and add to the WBG's strategy of encouraging private sector development in the country.

³⁴ The IDA Immediate Response Mechanism allows the inclusion of emergency-related contingent components in selected investment operations, to support rapid response in eligible crisis and emergency situations.

Co-financing, Trust Funds and Global Programs

Major multilateral and bilateral partners in recent years include the EU, IMF, UN, Sweden, the US, and Japan, among others. These partnerships will be enhanced and the WBG will also engage emerging development actors. In helping Moldova address the competitiveness agenda, the CPS will continue implementing and mobilizing funds from the FIRST³⁵ Initiative in the financial sector and regional programs such as STAR/EaP³⁶, and the ECA Programmatic TF for PFM will support strengthening of the Court of Accounts. Social sector programs will benefit from support from the Global Partnership for Education Catalytic Fund, and Japan Social Development Fund. To support climate change adaptation, the CPS will further seek partnerships with the Green Climate Fund, GEF, Climate Investment Funds, ESMAP³⁷, and E5P.³⁸ The State- and Peace-building Fund will support a calibrated approach to Transnistria.

World Bank Group Instruments

94. **The CPS proposes a mix of instruments suitable to Moldova's move to middle income status and renewed focus on results.** It gives a strong role to AAA, which will also cement the WBG role as a convener, and in turn help mobilize additional resources and enhance the effectiveness of the program. Space for more AAA will be created by consolidating the current portfolio, considering fewer and larger investment operations, and using AF. During this CPS, two to three investment lending operations and one DPO are envisioned annually. Building on the successful introduction of RBF³⁹, new operations will take the form of PforR whenever suitable. Wherever possible in each of the new operations, guarantees will be explored to crowd in additional resources for Moldova's reform agenda. The annual DPO will support tackling the policy and institutional constraints that hold back progress across the three CPS pillars.

Mainstreaming Gender

95. **The WBG will continue to ensure that gender is mainstreamed in operations.** A designated gender focal person, with guidance from the Country Management Unit, will ensure that women's groups are consulted and gender issues are considered in client consultations for new operations; support project teams in identifying or pointing to relevant sector knowledge on gender issues; maintain contact with key counterparts on gender issues within government, civil society and development partners; keep up to date with key developments in gender inequality such as national legislation and participation in international conventions, and knowing key data sources. The gender assessment commissioned in preparation for this CPS will inform the design of new programs. The results framework is engendered, where available information allows.

Managing the Program

96. **The CPS will pursue a two-pronged approach to enhance the development impact of WBG programs: quality at entry and accountability.** Quality at entry will be strengthened through a readiness filter. Accountability will be enhanced by mainstreaming governance in all operations and giving voice to citizens and CSOs in implementing WBG-financed operations.

³⁵ Financial Sector Reform and Strengthening Initiative.

³⁶ Strengthening Audit and Reporting in countries of the Eastern Partnership.

³⁷ Energy Sector Management Assistance Program.

³⁸ The Eastern Europe Energy Efficiency and Environment Partnership - E5P is a multi-donor fund managed by the EBRD designed to promote energy efficiency investments in Eastern European countries and was set up under the initiative of the Swedish Government.

³⁹ The two largest operations in the program are RBF: USD 40 million Moldova Education Reform project, and the USD 37 million Strengthening the Effectiveness of the Social Safety Net project.

Readiness for Implementation

97. **The CPS introduces a readiness filter to address at the outset any potential performance problems.** The filter will address design issues, procurement readiness and realism, fiduciary and implementation arrangements. It will be initiated at the concept stage and will continue during project preparation and before any new project is submitted to the Board. The filter will be also applied to TF-financed activities and substantial AAA products.

98. **New activities will build on successful projects, working with agencies with experience and implementation capacity.** Preference will be given to repeat operations and supplemental financing, continuing to work with agencies with strong project ownership, established implementation capacity and fiduciary arrangements. For new counterparts, capacity to manage procurement processes and contract implementation will be assessed, and implementation and disbursement schedules will be tailored to be consistent with the build-up of such capacity. The WB will assist project implementation units and final beneficiaries through training activities to build their capacity in project management, monitoring and evaluation.

Mainstreaming Governance and Anti-Corruption (GAC)

99. **The CPS proposes a GAC filter (see Annex 6) for lending operations, TFs, and AAA to examine GAC-related implementation risks and potential to influence positively country GAC outcomes.** It will be applied at pre-concept, design and implementation stages, and will ensure that GAC issues are given appropriate attention, risks are identified and mitigation measures discussed early on, and opportunities are identified to improve governance. The filter is intended to guide management and teams on issues that should be given particular attention. It was introduced in the ECCU2 department under the Ukraine CPS, and is an adaptation of the Operational Risk Assessment Framework (ORAF) to governance circumstances in the region.

Enhancing Social Accountability

100. **The CPS seeks to incorporate social accountability (SA) mechanisms in operations to increase project effectiveness and development impact.** For all new operations, efforts will be made to identify and assess potential SA entry points to reinforce citizen engagement and voice in WB-supported activities. The focus will be on SA tools that enhance: (i) transparency, such as information dissemination and demystification; (ii) accountability, such as participatory monitoring, financial management, and complaint handling mechanisms; and (iii) participation, such as participatory decision making and participatory management. Retrofitting SA mechanisms in existing operations will be also considered whenever possible and appropriate.

101. **Favorable circumstances bode well for the impact of SA initiatives.** Moldova has maintained a solid stance in the 2013 World Press Freedom Index of the Reporters without Borders, ranking 55th out of 179 countries, and has opted in to the GPSA, thus allowing CSOs to benefit from GPSA grants and build capacity to monitor public programs. Moldova is also the first WB client to authorize disbursement disclosure at category level for WB-financed projects, promoting transparency and accountability in the delivery of the WB program. The ongoing GeT project is supporting the Government in such data disclosure through its e-Government program.

Monitoring CPS Implementation

102. **The CPS results framework (RF) underpins program management and evaluation.** The RF defines interventions intended to deliver CPS outcomes, linking WBG lending, investments and non-lending activities to specific outcomes, milestones and targets to assess

whether implementation and outcomes are occurring as planned. These interventions have been fully costed and integrated in the work program agreement (WPA) planning. Progress in achieving the CPS outcomes will be monitored by the management team twice a year, at the time of WPA to inform allocation of resources, and six months later to provide feedback to task teams and call for corrective measures. A CPS PR is tentatively planned for early FY16, when adjustments to the CPS results framework will be made if necessary, based on an assessment of progress and results.

Trust Fund Program and Strategy

103. **The FY14-17 CPS integrates the role and contributions of TFs in the WBG's program of support to Moldova, including both lending and non-lending activities.** TF activities are part of the CPS results framework, which specifies their role in achieving expected outcomes and their link to higher country goals. Aside from being complementary to the lending portfolio, the TFs will continue to have an instrumental role in strengthening the AAA program.

104. **The WB will seek to use TF resources more strategically to support core objectives,** exploring opportunities for increased partnerships with the EC and others. These partnerships will build on the Bank's efforts towards a more programmatic approach in mobilizing TFs and consolidating them to reduce portfolio fragmentation and administration costs.

Developing Partnerships and Strengthening Aid Effectiveness

105. **The WBG will continue to work with other development partners to deliver the CPS outcomes.** The WBG works closely with the IMF to support macroeconomic policy goals and financial sector reforms, and explores ways to work more closely with the EU on governance, which fits well with both its agenda and the EU's Comprehensive Institution Building Program. Other areas of cooperation with the EC could be in regional development linked to the Bank's objective to enhance access to local social infrastructure, and Transnistria. Close partnerships with Sweden support energy, agriculture competitiveness, business climate reforms, and governance. The US (USAID and MCC) is a key partner in private sector development, business environment and agriculture. Switzerland in the health sector, Netherlands in governance, and Austria in health and governance are also key partners. Partnerships with UN agencies are important in key program areas such as governance (UNDP), agriculture (IFAD), education and social assistance (UNICEF), and health (WHO).

106. **The WB has been a strong supporter of development partner coordination and improved aid effectiveness.** WB-funded AAA during the previous CPS, together with support from Sweden and UNDP, led to a new set of Partnership Principles signed between the Government and 23 development partners in 2010. The subsequent Partnership Principles Implementation Plan sets out a number of initiatives for improved aid effectiveness.

IV. Managing Risks

Program implementation capacity

107. **Fiduciary and capacity risks remain.** Fiduciary risks continue to be mitigated through the emphasis on improved public financial management and strengthening the use of country systems, such as the Supreme Audit Institution for external audit. However, the use of country systems in procurement hinges on a successful implementation of the ongoing IDF, as well as on subsequent fiduciary AAA to assist Moldova in the design and the roll out of an e-Government procurement system acceptable to the WB. Risks associated with limited institutional capacity

are also mitigated through selectivity as the WB will emphasize involvement in areas where results have been already attained. To further mitigate risks, the public sector will continue to be strengthened by implementing public administration reforms, emphasizing accountability and capacity building.

108. Regarding public procurement, the capacity of private contractors has been a concern in several recent operations. The relatively small size of contracts has neither attracted the strongest contractors nor brought up their best services. Mitigation will involve advertising RFPs in non-traditional markets. The WB will continue to remain engaged by assisting the Government in implementing public procurement reform specifically to carry out recommendations of the 2010 Country Procurement Assessment Report, setting up third-party monitoring, and organizing outreach and capacity building activities, including in contract management, for both implementing agencies and the private sector.

109. Macroeconomic risks are substantial and may stem from slippages in macroeconomic and structural reforms, and poor governance in the financial sector. The WB, together with the IMF and the EU, will continue to support improved macroeconomic management, and support to improving competitiveness and diversification of the economy will mitigate macroeconomic risks. The planned series of DPO – along with appropriate TA – will support reforms aiming at an orderly restructuring of BEM, through adequate capitalization, and better management and corporate governance. Should structural reforms stall or the macroeconomic risks materialize, Development Policy Operations will not be considered, and the CPS will instead focus on programs that alleviate the adverse impact on the most vulnerable and prevent a decline in human capital. The CPS will continue the knowledge-building program so there is a strong analytical base to draw from when reforms resume.

Political economy

110. Political uncertainty or a change in Government may undermine support for reforms, or these may stall at the approach of the next elections or vested interests. The CPS has been consulted widely with all political parties that are in agreement with its outcomes, and it is expected that even if there were a change in Government, there would be sufficient ownership by a new government. Previous CPS experience shows that even in a risky environment, the WB needs to be ready to support reforms when opportunities arise. We will continue to engage all parties across the political spectrum in CPS discussions. All new operations will be underpinned by a governance filter and an operational readiness evaluation, including a political economy assessment that can quantify reform benefits and costs, identify losers and winners, and inform solid communication campaigns.

External factors

111. Continued global slowdown, particularly in the Eurozone, will adversely affect exports and remittances. CPS support to improve competitiveness, diversify the economy and strengthen the social safety net will help mitigate these risks, which also call for a flexible approach by the WBG and other development partners to assist Moldova to weather these external shocks.

112. Climate change and natural disasters continue to pose risks. The ongoing and planned support for disaster and climate risk mitigation and consideration of flexible financing such as the IDA Immediate Response Mechanism should help address these risks.

Annex 1: CPS Results Matrix

Country Development Goals	Issues and Obstacles	CPS Outcome Indicators	World Bank Group Program (and Partners)
Pillar 1: Increasing Competitiveness			
CPS Outcome 1.1. Improved business environment and infrastructure for business operation			
Improving the business climate, promoting competition policies, and streamlining the regulatory framework (Moldova 2020 Priority #4).	Inefficient revenue administration with high compliance costs, high frequency of audits and low efficiency.	<p>Effective and efficient tax administration that will improve voluntary compliance and self-assessment and will reduce compliance costs.</p> <p><i>Indicator 1:</i> Decreased cost of compliance as measured by share of audited companies selected based on risk profiles Baseline: 0 percent (2013) Target: 100 percent (2017)</p> <p><i>Indicator 2:</i> Improved effectiveness of tax collection (PEFA PI-15 “Effectiveness in collection of tax payments”) Baseline: D+ (2013) Target: B (2017)</p>	<p>Pipeline: Strengthening PFM and Tax Administration Project P127734 World Bank Institute (WBI) (TA)</p> <p>Partners: USAID, EU, Sida</p>
	Customs administration is insufficiently predictable and transparent, which leads directly to increased costs and reduced competitiveness. As per Doing Business, Moldova currently ranks 142 nd in the world on Trading Across Borders.	<p>Customs procedures are streamlined and more transparent.</p> <p><i>Indicator 1:</i> Reduced number of days to prepare documents for export operations (“Trading Across Borders” indicator of Doing Business) Baseline: 20 (2012) Target: 16 (2017)</p>	<p>Pipeline: New Private Sector Development (PSD) / Access to Finance (A2F) Project (FY15) New DPO series</p> <p>AAA: Trade Study</p> <p>Partners: USAID, EU</p>
	Despite improvements, compliance with the regulatory framework, permits, inspections, and other aspects continues to impose excessive costs on private enterprises.	<p>Decreased regulatory burden on enterprises.</p> <p><i>Indicator 1:</i> Reduced management time for regulatory requirement compliance (annual domestic CODB survey) Baseline: 10 percent (2012) Target: 8 percent (2017)</p> <p><i>Indicator 2:</i> Reduced inspection coverage (except tax, customs and financial – banking and non-banking) Baseline: 100 percent Target: 40 percent (2017)</p> <p><i>Indicator 3:</i> Reduced number of permits and licenses Baseline: 317 (2012) Target: 238 (25 percent reduction) (2017)</p>	<p>Ongoing: IFC Investment Climate Project</p> <p>Pipeline: New PSD/A2F Project (FY15) New DPO series (FY14-16) Possible IFC investment in private education</p> <p>Partners: USAID</p>
Improving the competitiveness of enterprises in order to increase growth and employment	Relatively low management capacity (business planning and models, financial management) keeps Moldova’s companies below their competitive potential.	<p>Strengthened business managers’ capacity to make strategic decisions that increase competitiveness and job creation.</p> <p><i>Indicator 1:</i> Additional number of managers trained in business strategy, financial management, and other relevant areas with the support of a new WBG project/investment Baseline: 0 (2013) Target: TBC in the design of the PSD project (FY15)</p>	<p>Pipeline: New PSD/A2F Project (FY15) Possible IFC investment in private education</p> <p>AAA: New programmatic HD TA</p>
Creating an innovation-driven and export-focused ICT industry that generates jobs and is globally competitive.	Moldova has a low ranking in measures of the innovative nature of the economy. ICT innovation ecosystem is not fully functional and needs to enable innovation and competitiveness. Limited talent pool in the IT sector.	<p><i>Indicator 1:</i> IT direct employment (number of people) Baseline: 21,000 (2012) Target: 25,000 (2017)</p>	<p>Ongoing: Governance e-Transformation (GeT) Project AF P121231</p> <p>Pipeline:</p>

Country Development Goals	Issues and Obstacles	CPS Outcome Indicators	World Bank Group Program (and Partners)
<i>(ICT sector strategy)</i>	Limited broadband reach in second-tier cities and rural areas.	<p>Improved access to broadband Internet.</p> <p><i>Indicator 1:</i> Access to broadband Internet services (number of subscribers per 100 people) Baseline: 11 percent (2012) Target: 20 percent (2017)</p> <p><i>Indicator 1.1:</i> Access to Internet services for the bottom 40 percent (number of subscribers per 100 people) Baseline: 9 percent for bottom 40 percent (HBS 2011) Target: at least 16 percent for the bottom 40 percent (i.e. at least 82 percent increase, as targeted for the average population)</p>	<p>New DPO series (policy and regulation)</p> <p>AAA: GeT project TA for MICT's ICT sector strategy TA on ICT-enabled innovation for competitiveness in Moldova TA on telecommunications policy and regulation</p>
Reducing financing costs by increasing competition in the financial sector and developing risk management tools (Moldova 2020 Priority #3).	<p>Moldova's financial sector is less developed than the region's, with a lower share of bank loans and deposits to GDP. Major obstacles are: (i) limited availability of loans at terms of more than 3 years from commercial banks' own resources; (ii) high and often prohibitive collateral requirements.</p> <p>Underdeveloped capital market with limited financing options for companies. The government bond market has only short-term issues and secondary market trading is almost non-existent.</p> <p>The Corporate Financial Reporting (CFR) framework requires further improvements and alignment with good international practices and EU requirements.</p>	<p>Improved access of private enterprises to formal sources of finance.</p> <p><i>Indicator:</i> Domestic credit to private sector as share of GDP Baseline: 38.8 percent (2011) Target: 45 percent (2017)</p> <p>Capital market continues to be strengthened to facilitate increased access to finance.</p> <p><i>Indicator:</i> Government bonds listed on the stock exchange Baseline: Non-existent (2012) Target: Government bonds with >1 year maturity are traded on the stock exchange (2017)</p> <p>Strengthened CFR institutional framework through improvements in A&A ROSC update indicators, i.e. greater alignment of the CFR legislation and practice with the EU <i>acquis</i>, namely: (i) Public Interest Entities (PIEs) implement IFRS in practice; (ii) quality of external audits is strengthened through an operational audit oversight system; (iii) SME financial reporting standards are improved; (iv) public availability of financial statements.</p>	<p>Pipeline: New PSD/A2F project (FY15) New DPO series Direct IFC investment & possible wholesale financing through FIs given adequate market conditions</p> <p>TFs: Strengthening Auditing and Reporting in Countries of the Eastern Partnership (STAR/EaP) P133467</p> <p>FinSAC (Vienna Center)</p> <p>AAA: Financial Sector Development TA (FY14-16) FSAP Update (FY16) ROSC A&A Update</p>
CPS Outcome 1.2. Improved competitiveness in agriculture			
Enhancing agricultural export competitiveness, attracting investments and achieving closer trade integration with the EU.	<p>Current deficiencies in the country's food safety management system are among the most serious impediments for a more competitive presence of Moldovan agricultural produce on international markets.</p> <p>Lack of modern post-harvest infrastructure has as one of the weakest links for fruits and vegetables vertically coordinated supply chains. Lack of capital and know-how are among the main culprits for a largely underwhelming progress in the emergence of properly integrated post-harvest infrastructure.</p>	<p>Enhanced competitiveness of the agro-food sector by supporting the modernization of the food safety management system.</p> <p><i>Indicator 1:</i> Completion of targeted food safety actions for approximation to EU Sanitary and Phytosanitary (SPS) requirements Baseline: 20 percent (2013) Target: 100 percent (2017)</p> <p>Increased market access for farmers.</p> <p><i>Indicator 1:</i> Increased sales (domestic and exports) of high value crops by targeted partnerships that receive investment support grants Baseline: 0 percent (2013) Target: 50 percent (2017)</p>	<p>Ongoing: Moldova Agriculture Competitiveness Project (MACP) P118518 IFC Investment Climate Project</p> <p>TFs: MACP GEF</p> <p>AAA: DCFTA Preparation Support in Agriculture TA Food Security and Agricultural Policy Formulation TA</p> <p>Pipeline: IFC investment and possible wholesale financing through banks under adequate market conditions</p>
Pillar 2: Enhancing Human Capital and Minimizing Social Risks			
CPS Outcome 2.1. Improved quality of and access to health and education services			
Strengthening the quality of education, while supporting the efficiency	The sector needs to adjust to sharp student population decline, improve quality and address skill mismatch.	<p>Strengthened quality of education.</p> <p><i>Indicator 1:</i> Implementation of quality assurance standards for hub schools initiated and scaled up (percent of hub schools)</p>	<p>Ongoing: Quality Education in Rural Areas of Moldova Project AF P129552</p>

Country Development Goals	Issues and Obstacles	CPS Outcome Indicators	World Bank Group Program (and Partners)
<p>reforms being implemented in the education sector.</p>	<p>PISA 2009 + showed that, by age 15, Moldovan students have lost the equivalent of 2 years of education compared to OECD peers, and 57 percent of students failed to acquire the most basic skills needed to participate effectively and productively in the society (scored at or below Level 1 on the reading part).</p> <p>Structural reforms in the sector aim at: (i) ensuring student access to quality education; (ii) increasing flexibility in labor relations in education; and (iii) enabling the efficient use of allocations through per student financing nationwide. In 2012, the Parliament created an enabling reform environment.</p>	<p>Baseline: 0 percent (2013) Target: 70 percent (2017)</p> <p><i>Indicator 2:</i> Improved student assessment system</p> <p>Baseline TBD at the end of academic year 2014/15 for grade 4 tests and 2015/16 for grade 9 examinations. Baseline will try to include, if available, data to proxy belonging to the lowest 40 percent of the population, so as to be able to monitor quality improvements for this group.</p> <p>Improved efficiency of the education sector.</p> <p><i>Indicator 1:</i> Implementation of per-student financing nationwide (in 2013)</p> <p><i>Indicator 2:</i> Improved student-teacher ratio Baseline: 10.5:1 (2013) Target: 11.5:1 (2017)</p>	<p>Moldova Education Reform Project P127388</p> <p>TFs: Global Partnership for Education TF Japan PHRD Disability and Development Grant for the integration of children with disabilities into hub schools</p> <p>Partners: Japan</p>
<p>Increasing access to quality and efficient health services with the aim of increasing life expectancy, and reducing premature mortality and disability.</p>	<p>Moldovans live on average 10 years less than their European neighbors, and healthcare suffers from lack of investment and widespread practices, such as under-the table additional payments for under-provided services. Many challenges remain, i.e. improving access to services for the poorest and their quality and adequacy; resources are spread too thinly to support 73 hospitals with limited service delivery capacity, a large number of laboratories, several polyclinics and rural primary care centers. There is a need to develop NCD prevention and control programs, and further develop primary care.</p> <p>Patients have to pay large sums at the point of delivery, for medicines and tests, but also for services that are insured. Around 19 percent of people decide not to buy insurance.</p>	<p>Improved access to quality healthcare.</p> <p><i>Indicator 1:</i> Better population coverage with mandatory health insurance Baseline: 81 percent (2013) Target: 85 percent (2017)</p> <p><i>Indicator 1.1:</i> Coverage of the bottom 40 percent (B40) Baseline: 71.5 percent (HBS11) versus 81 percent for the top 60 percent Target: At least 76.5 percent</p> <p><i>Indicator 2:</i> Share of out-of-pocket payments (formal and informal) in total health expenditure reduced Baseline: 45 percent (2013) Target: 35 percent (2017)</p> <p><i>Indicator 2.1:</i> Percentage of the B40 who report having spent >10 or 25 percent of their total expenditure on health Baseline: 14.2 percent of B40 spend more than 10 percent / 1.2 percent of B40 spend more than 25 percent (HBS11) Target: less than 10 percent of B40 spend more than 10 percent / less than 1 percent of B40 spend more than 25 percent (2017)</p>	<p>Ongoing: IDF HMIS grant WB PPP pilots</p> <p>Pipeline: IDF grant for Medical University PforR project in health proposed FY14 Health sector conditionality in new DPO series</p> <p>TFs: New TF for open data readiness assessment of Ministry of Health Public Administration Reform Project (FY15) MDTF</p>
<p>CPS Outcome 2.2. Fiscally sustainable and equitable pension and social assistance systems</p>			
<p>Creating an equitable and sustainable pension system (Moldova 2020 Priority #6)</p>	<p>The structural problems in the pension system (PAYG pillar) include: (i) weak linkages between pension contributions and benefits; (ii) low and declining replacement rates due to distorted benefit formula and indexation rule; (iii) various special regimes with preferential treatment to some groups of retirees. These shortages combined with poor demographic prospects of the country make the current pension system fiscally and socially unsustainable.</p>	<p>Fiscally sustainable pension system.</p> <p><i>Indicator 1:</i> Pension (PAYG) expenditures are kept below 8 percent of GDP while the pension system's fairness is improved Baseline: 8 percent (2013) Target: 8 percent (2017)</p> <p><i>Indicator 2:</i> Replacement rates are maximized within a given PAYG budget envelope Baseline: 28 percent (2013) Target: 30 percent (2017)</p>	<p>Pipeline: New DPO series</p> <p>AAA: New programmatic HD (pension policy TA)</p> <p>Partners: IMF</p> <p>Ongoing: Strengthening the Effectiveness of the Social Safety Net RBF Project P120913</p>
<p>Designing and implementing a well-targeted and sustainable program of cash transfers to improve the poverty impact of resources for transfers through reduced</p>	<p>Shortcomings of pre-reform social assistance have hampered the ability to protect the poor and vulnerable against crisis and shocks. More equity can be achieved by scaling down and consolidating categorical benefits, and expanding and strengthening <i>Ajutor Social</i>.</p>	<p>Improved equity of social assistance.</p> <p><i>Indicator 1:</i> Improved equity in social assistance system, measured as percentage of population in the poorest quintile receiving <i>Ajutor Social</i> benefits Baseline: 14.9 percent (2011) Target: 20 percent (2017)</p>	

Country Development Goals	Issues and Obstacles	CPS Outcome Indicators	World Bank Group Program (and Partners)
inclusion and exclusion errors, and a system focused around a welfare concept of poverty.		<p><i>Indicator 2:</i> Consolidated categorical benefits: spending on categorical benefits further reduced by 20 percent Baseline: 7 percent (2012) Target: 30 percent (2017)</p>	
Pillar 3: Promoting a Green, Clean and Resilient Moldova			
CPS Outcome 3.1. Greater adaptation and resilience to climate change			
Reducing the country's adaptation deficit to climate variability and climate change.	Climate variability is likely to increase the frequency and intensity of natural disasters as evidenced by, most recently, the catastrophic disasters associated with the droughts of 2007 and 2012 and devastating floods of 2008 and 2010.	<p>Strengthened State Hydro-meteorological Service's ability to forecast severe weather and Moldova's improved capacity to prepare for and respond to natural disasters.</p> <p><i>Indicator 1:</i> Issuing more accurate and specific forecasts of weather conditions Baseline: Scale of weather forecasts at 5000 sq. km (2013) Target: Scale of weather forecasts reduced to 300 sq. km (2017)</p> <p><i>Indicator 2:</i> Expanded lead-time for weather warnings to users Baseline: Lead time for severe weather warnings only 10 minutes to 1 hour (2013) Target: Lead time for severe weather warnings expanded to 12 hours (2017)</p> <p><i>Indicator 3:</i> Strengthened capacity to coordinate emergency responses Baseline: No Emergency Command Center to coordinate response among relevant agencies (2013) Target: Emergency response drill shows capacity improvements as compared to the baseline and the recent test of the system (2017)</p>	<p>Ongoing: Disaster and Climate Risk Management Project P115634</p> <p>AAA: Climate Change Adaptive Capacity and Resilience Study Social Dimensions of Climate Change Country assessment (BNPP)</p> <p>TFs: Global Fund for Disaster Risk Reduction: Moldova Disaster and Climate Risk Management Capacity Building Community Forestry Project Soil Conservation Project Community Support Program for Sustainable and Integrated Forest Management and Carbon Sequestration through Forestation (SIFMSF)</p>
CPS Outcome 3.2: Improved Natural Resources Management			
Reducing environmental degradation and negative impacts of economic activities on the environment, natural resources and human health.	Moldovan soils are prone to severe degradation which leads to significant loss of productivity with implication for the country's agriculture and environment. In addition, the country's forest cover is limited (11.1 percent) and vulnerable to a changing climate. The expansion of forest cover is a sustainable way of reducing erosion and engendering local and global environmental benefits. Another important problem is the deterioration of the country's wide network of forest shelter belts, with particularly dire implications in the South and Center.	<p>Sequestration of 2.5 million tons of CO2 through forestation of degraded lands.</p> <p>Enhanced competitiveness of the agro-food sector by mainstreaming agro-environmental and sustainable land management practices.</p> <p><i>Indicator 1:</i> Increased on-farm area benefitting from sustainable land management practices Baseline: 0 hectares (2013) Target: 10,000 hectares (2017)</p> <p><i>Indicator 2:</i> Increased area protected by robust anti-erosion shelterbelts rehabilitated Baseline: 0 hectares (2013) Target: 50,000 hectares (2017)</p>	<p>Ongoing: MACP P118518 ENPI Forest Law and Enforcement and Governance II Program</p> <p>Pipeline: Forestry and Sustainable Land Management (FY16) Adaptation and Resilience to Climate Change (FY17)</p> <p>AAA: Forestry Policy Note (FY15)</p> <p>TFs: Community Forestry Project Soil Conservation Project Community Support Program for SIFMSF</p> <p>Potential partners: GEF, Climate Investment Fund, Green Climate Fund</p>

CPS Outcome 3.3 Increased energy efficiency and security

<p>Increasing energy efficiency and security.</p>	<p>Moldova has limited domestic energy sources, relying on imports for 98 percent of oil and gas needs and 76 percent of electricity needs. Energy imports are 23.9 percent of total imports and an important component of the current account deficit. A lot of it stems from a very high energy intensive economy. The DH company in Chisinau (Termocom) is a big part of the problem due to deteriorated and obsolete infrastructure and has accumulated around USD 250 million debt stock for gas payments (3.7 percent of GDP).</p> <p>Gas supply that may happen as a result of these arrears could affect about 40 percent of current DH consumers, or about 160,000 residents, affecting the most vulnerable and the poor.</p> <p>The Government adopted an Action Plan for the Chisinau DH sector restructuring. Commercialization of DH supply and rationalizing energy use needs to be addressed urgently.</p>	<p>Decreased energy supply costs, increased quality of supply and improved affordability of heat supply in Chisinau. Implementation of building level metering and temperature controls, with incentives for customers to decrease energy use.</p> <p><i>Indicator 1:</i> Direct beneficiaries in buildings with new individual heat substations (number), of which female (percent)</p> <p><i>Indicator 2:</i> Average specific heat consumption of buildings with modernized heating substations (KWh/m2 annually)</p> <p><i>Indicator 3:</i> Total amount of energy saved</p> <p>Baselines and targets will be determined at appraisal (fall 2013)</p> <p>Debt of the new DH Company restructured by 2013 to improve its creditworthiness, and debt burden to Moldovagaz reduced by at least 20 percent by 2017.</p> <p><i>Indicator 1:</i> Debt Restructuring Plan signed with Moldovagaz</p> <p><i>Indicator 2:</i> Debt repayment of at least 5 percent per annum to reduce the debt burden by at least 20 percent by 2017</p> <p>Baseline and target TBC following completion of the financial model by the consultant</p>	<p>Ongoing: IDA Investments: DH Efficiency Improvement Project P132443</p> <p>AAA: TA Program: Energy Sector Restructuring and Efficiency Improvement (ESREI) TA Project P123396</p> <p>Pipeline: DH Reforms (FY 14) Possible IFC PPP Advisory Program on resource efficiency for SMEs Possible IFC provision of energy efficiency credit lines through financial intermediaries given adequate market conditions Possible IFC direct investment to improve resource efficiency in private sector companies</p> <p>Partners: Sweden, EBRD, EIB, EU</p>
<p>Reducing the vulnerability of the power sector to supply shortfall due to the limited number of supply options and the aging of assets.</p>	<p>Domestic electricity supply is small and imports are limited to generating plants in Ukraine and Transnistria, operating beyond their economic life and poorly maintained. The Government needs to diversify its supply options and improve quality of domestic supply. Implementation of commitments under the Energy Community Treaty would help address the issues by integrating with the regional markets (ENTSO-E and ENTSO-G).</p>	<p><i>Indicator 1:</i> Identified options for enhanced diversity of supply (Ukraine, Cuciurgan Power Station (MGRES) and Chisinau CHPs.</p>	<p>AAA: ESMAP Moldova Power Sector Note IFC Grid Interconnection Study</p> <p>Pipeline: Possible IFC investment in wind energy</p> <p>Partners: EU, Sweden, EBRD, EIB</p>
<p><i>Governance as a cross-cutting theme</i></p>			
<p>Establishing a professional and motivated civil service.</p>	<p>Quality of Public Administration is one area in which Moldova scores lowest – 3.0 in the 2012 CPIA.</p> <p>On November 29, 2012, the Parliament amended the law on civil service that introduces a position of state (permanent) secretary in ministries, rather than political appointments to the civil service. Implementing legal provisions requires advisory services to develop and implement the new employment, professional development (PD), performance management, and rotation mechanisms.</p>	<p>Professionalization of the public service increased through implementation of the position of state secretaries.</p> <p><i>Indicator 1:</i> Level of professional management of public services</p> <p>Baseline: Ministries and central agencies are managed by politically appointed officials (2013)</p> <p>Target: All (percent) of ministries are managed by professional state secretaries (2017)</p> <p><i>Indicator 2:</i> Number of PD initiatives implemented, number of state secretaries involved in professional development programs</p> <p>Baseline: Number of PD programs for senior executive officials, including state secretaries (2013)</p> <p>Target: PD program based on a defined set of competences and performance requirements is approved and under implementation (2017). Percent of program-covered state secretaries (90 percent).</p>	<p>Pipeline: Public Administration Reform Project (FY15) MDTF</p> <p>Partners: Sida, EU</p>

Establishing effective and efficient government programs, aligned with national strategic goals.	After creating a good basis for sector strategic planning linked with budgeting (within MTBF), the Government plans to implement program performance evaluation mechanisms that would enable necessary feedback to the planning and budgeting systems with the aim to improve program targeting, outcomes, and cost efficiency.	<p>The Government evaluates programs and related expenditure programs as a means of improving strategic decision making and resource allocation.</p> <p><i>Indicator 1:</i> Number of government programs evaluated Baseline: No mechanism for program evaluation Target: Program evaluation mechanism is developed and used. At least 3 programs evaluated for targeting, effectiveness and efficiency of outcomes and impact.</p>	<p>Pipeline: Public Administration Reform Project (FY15) MDTF</p> <p>Partners: Sida, Dutch IMF</p>
Increasing reliance on country institutions with medium-term focus on strengthening the capacity of public external audit and treasury system and the public procurement system.	(i) High rate of Court of Accounts (CoA) staff turnover and need for continuous training and capacity building activities; (ii) long processing time for payment orders by the Treasury.	<p>Improved accountability of the Executive for public money spending through better quality of audit reports.</p> <p><i>Indicator 1:</i> Involvement of Supreme Audit Institution in audit of World Bank-financed projects Target: At least 2 projects are fully audited by the CoA</p> <p>Improved business processes in the Treasury system.</p> <p><i>Indicator 1:</i> Capacity building workshops and seminars for Supreme Audit Institution and State Treasury Target: (i) Consolidated capacity of auditors to conduct the audit of public institutions and government programs; (ii) Real-time processing of payment orders.</p> <p>Enhanced quality of public debate.</p> <p>Improved social accountability environment through opportunities and capacity building for broad citizen engagement in service delivery and public expenditure management processes.</p> <p>More participatory nature of decision making processes.</p>	<p>Ongoing: Governance Filter in all WB-supported operations Global Partnership for Social Accountability (GPSA) Governance e-Transformation Project WBI support</p> <p>Pipeline: Public Administration Reform Project (FY15) MDTF GPSA</p> <p>AAA: Financial Management TA</p>
	(i) Public procurement procedures are conducted in paper-based format; (ii) High number of complaints about non-compliant public procurement procedures due to the lack of technical specification standards and updated public procurement guidance; (iii) Lack of trained certified public procurement officers.	<p>Improved transparency and efficiency of the public procurement system: (i) by improved e-procurement system and rolling it out for use by contracting agencies and economic operators; and (ii) adopted international standards and practices.</p>	<p>TFs: Strengthening Public Procurement IDF Grant</p>
Using ICT to support effective, efficient, transparent and accessible public services to citizens.	Government is yet to take full advantage of ICT to ensure more efficient and transparent service delivery through business process re-engineering and greater citizen participation in governance. The Government approved a program of service improvement that will require coordination, TA, legal and organizational changes; restructuring service delivery systems (chains); introducing digitalized services and single window service, and service standards and transparent charges.	<p>Increased number of direct project beneficiaries, including female (percent)</p> <p><i>Indicator 1:</i> Percent of direct project beneficiaries (including female) Baseline: 20,000 (40 percent female) (2013) Target: 300,000 (50 percent female) (2017)</p> <p>Increased favorable citizen perception of quality of public service</p> <p><i>Indicator 1:</i> Citizen perception of public service quality (percent of satisfied citizens accessing Government Services Portal) Baseline: 45 percent (2013) Target: 60 percent (2017)</p>	<p>Ongoing: Governance e-Transformation Project</p> <p>Partners: GIZ: Modernization of Local Public Services Project (extension of some e-services to regional development agencies)</p>

Annex 2: World Bank Group FY09-13 Country Partnership Strategy Completion Report Republic of Moldova

Date of CPS: December 23, 2008, Board Discussion

Date of CPS Progress Report: May 12, 2011

Period Covered in the CPS Completion Report: FY09-13

CPS Completion Report (CPS CR) prepared by Dusan Vujovic, Abdoulaye Seck, Carolina Odobescu, Yulia Snizhko, Faith Tempest, and Hester Marie DeCasper under the overall guidance of Qimiao Fan, Country Director (ECCU2) and Ana Maria Mihaescu, Chief Resident Representative (IFC). The CPS CR team has benefitted from valuable inputs and contributions of the entire World Bank Group Moldova Country Team.

I. Summary and Conclusions

1. **The original FY09-12 Country Partnership Strategy (CPS) was implemented during a time of political and economic uncertainty, under continued political stalemate and as the country was emerging from the global financial crisis.** The Strategy was re-focused at mid-term in the 2011 Country Partnership Strategy Progress Report (CPS PR) and extended to FY13, utilizing opportunities created by the election of a pro-European government and the strong orientation of the Government Activity Program 2009-13 towards integration with the European Union (EU). Efforts concentrated on building a platform for post-crisis economic growth, and addressing challenges faced by Moldova on the way to improved competitiveness. The three pillars were: (i) improving economic competitiveness to support sustainable economic growth; (ii) minimizing social and environmental risks, building human capital, and promoting social inclusion, and (iii) improving public sector governance. The International Financial Corporation (IFC) was able to offer new products tailored to changing market conditions while maintaining a strong investment program. These included risk management and non-performing loan (NPL) advisory services and the scaling up of the Global Trade Finance Program.

2. **The overall program performance under the FY09-13 Moldova CPS is rated as Moderately Satisfactory.** The CPS achieved good progress on most outcomes planned in the original CPS or adjusted at the time of the CPS Progress Report (CPS PR) despite external shocks and internal political changes. Insufficient progress was made on several important outcomes due to overly ambitious targets given the political economy of reforms and moderate performance issues. The Development Policy Operation (DPO) assisted the Government in taking steps towards economic recovery from the global crisis, and the World Bank Group (WBG)'s analytical work provided clear diagnostics of Moldova's development and reform challenges and helped the new Government to prepare a sound development and reform strategy and mobilize impressive support from development partners. Policy dialogue and projects implemented with WBG support produced concrete development results in areas ranging from enhancing competitiveness of enterprises and the agricultural sector, to greater social protection and improved access to education, improved government capacity to design and implement effective policies and manage public resources. Partially achieved or missed outcomes in some cases indicate moderate underperformance that demands remedial action, but in most cases they are a combination of somewhat unrealistic targets and moderate underperformance.

3. **WBG performance is rated as Satisfactory based on its ability to design a flexible CPS in a difficult external environment and changing domestic political landscape, and timely mid-point adjustment.** The WBG responded promptly to the emergence of a pro-EU Government that committed to accelerating reforms, and worked closely with development partners to design an adequate policy response to external shocks and mobilize necessary development resources. Three original pillars, 10 goals, and 31 outcomes/milestones were designed in a pre-crisis environment and with a previous government. The mid-point adjustment responded to changing internal and external circumstances through a revised lending program and Analytical and Advisory Activities (AAA) to better respond to the new Government's needs. The initial reform impetus was slightly overestimated; hence some goals and specific milestones were not achieved in the current CPS timeframe. This was duly reflected in evaluating both program and WBG performance.

II. Key Developments During the CPS Period

4. **The global financial and economic crisis and the most recent sovereign and banking crisis in the Eurozone have taken a toll on Moldova's economy.** Lower export demand and a significant drop in remittances reduced consumption-driven growth. The economy recovered quickly in 2010-11, posting close to 7 percent average annual growth, but was adversely affected by the Eurozone difficulties in 2012, and it is expected that headwinds from the Eurozone will continue to weigh on Moldova's economy in 2013. Despite positive developments on the growth side, employment creation remains weak. On a more positive note, Moldova emerged from the global financial crisis with more balanced Gross Domestic Product (GDP) growth based not only on consumption, but also on increased investment and exports.

5. **However, high dependence on remittances and a large current account deficit remain a source of vulnerability.** Remittances are below the peak of 30 percent of GDP in 2008, but are still high at 22 percent of GDP in 2011 and have a significant macroeconomic impact, including on the real exchange rate. Trade deficits are high and the large current account deficit is mostly financed by private and official debt. Foreign direct investments (FDI) are still at one third of pre-crisis levels.

6. **The period from 2009 to 2012 was one of political turbulence.** Elections in mid-2009 brought to power a coalition Government, the Alliance for European Integration, with a much stronger reform focus than its predecessor, prioritizing ambitious reforms that would bring greater European integration. Dialogue with the EU intensified and negotiations began on visa liberalization, the establishment of a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU and on an Association Agreement. The CPS was able to respond to the reform oriented Government, particularly through AAA, but also with its limited but focused International Development Association (IDA) resources. This strategy was susceptible to the risk that the Government would not be able to deliver reforms, but also presented a significant, and rare, opportunity to support these reforms.

7. **Strong support from the international community helped the Government to implement wide ranging reforms and policy changes, initially with a focus on economic stabilization and recovery.** The WBG contributed to a successful Consultative Group (CG) Meeting in 2010, resulting in about USD 2.6 billion pledged by 22 development partners for a three-year period (2010-13), which, along with new trade and investment opportunities, were effectively used to support reforms and build economic growth. Such a strong development

partner response was due to a coherent government recovery program and a clear coordination and harmonization framework. The World Bank (WB) played a leading role in both. It enabled and supported the preparation of the Policy Notes underpinning the Economic Stabilization and Recovery Program (ESRP), and was instrumental in developing a new set of Partnership Principles. Together with private resources this enabled a robust growth recovery in 2010 and 2011 (of 7.1 and 6.4 percent, respectively) based on private consumption, investment and exports. Exports increased by over 40 percent in dollar terms during the two-year period. This trend continued into 2012 albeit at a much slower GDP growth rate caused by the Eurozone crisis.

8. **Political challenges remain after the 2009 elections.** The inability to elect a President and the paralyzing threat of early elections until March 2012 slowed reforms. Differences continue within the parties of the Alliance, and continue to limit the degree to which it can implement its reform agenda. Splits remain between Government and opposition but also within society on the appropriate pace and direction of reforms. Political changes in Transnistria have also supported the resumption of the 5+2 talks intended to identify a settlement to the conflict.

III. Progress Towards Country Goals

9. **Over the CPS period, poverty indicators have declined due to economic recovery, assisted by good agricultural performance, rebound in remittances and improved targeting of social assistance.** The number of people below the relative poverty line declined from over 26 percent in 2008-2009 to less than 22 percent in 2010, with an estimated further decline in 2011⁴⁰. Rural poverty was reduced even more (by 6 percent in 2010) due to a substantial increase in farm-gate prices (average annual increase in 2010 was 43 percent). The number of people below the absolute poverty line declined from 3 to 1 percent in 2010 and is now close to zero.

10. **The process of macroeconomic stabilization continues.** Both Consumer Price Index (CPI) inflation and private sector credit growth decelerated considerably during the crisis and have stabilized substantially below pre-crisis levels, the CPI slowing from more than 12 percent in 2008 to about 5 percent in 2012, the credit growth rate down from 35 to 16 percent and continuing to slow down in 2012. Similarly, the level of fiscal deficit dropped from 6.3 percent of GDP in 2009 to 2.4 percent in 2011. This improvement is entirely due to a strong expenditure reduction effort (from 40.3 percent of GDP in 2009 to 34 percent in 2011), which outpaced the drop in revenues (from 38.9 percent of GDP in 2009 to 36.7 percent in 2011), which occurred despite higher corporate and excise taxes. Critical structural reforms in social assistance and education are underway, supporting fiscal adjustment and helping the most vulnerable.

11. **Sustaining investment and export growth by promoting a stronger supply response in agriculture and other tradable sectors is essential for a more sustainable growth path and containing current account deficits.** Impressive export growth in 2010-11 probably owes more to policy changes (i.e. removal of export constraints), favorable weather conditions and one-off efforts by individual companies rather than permanently increased export capacity. Likewise, it remains uncertain to what extent the higher level of investment activity since 2010 will contribute to increased production capacity and greater efficiency (productivity growth). Policies and reforms that will provide incentives for investment in tradable sectors leading to job creation, production and export growth are of utmost importance in that regard.

⁴⁰ Unpublished data from the National Bureau of Statistics point to a poverty headcount of 17 percent in 2011.

12. **The quality of the business environment is critical to provide the necessary link between dynamic export-led growth, job creation, macro stability, and fiscal and external balance.** With the opportunities provided by exceptional development partner financing and potential export expansion into the EU and other western markets, it is critical that likely investor interest is met by visible improvements in the business environment. Surveys and studies indicate considerable scope for improvement, leading to lower compliance costs and improved competitiveness.

13. **Moldova made progress towards achieving some of the customized Millennium Development Goals (MDGs), but missed half of the interim targets.** The country has made significant progress in certain dimensions of human well-being (e.g. infant mortality has been reduced, continuing a positive trend which led to a decrease from 30 to 11.8 per 1,000 live births between 1990 and 2010), with more modest progress in other indicators such as maternal mortality which dropped from 62 to 41 per 100,000 live births during the same period (but which had been measured at 17.2 per 100,000 births in 2009). Poverty levels were in decline until 2009; data for 2010 show that the country is on track to meet 2015 targets, thanks in part to increased agricultural prices and to targeted social protection measures, and has already met 2015 targets for reduction in absolute poverty. Of a number of dimensions of environmental sustainability, management of ecosystems (maintaining biological diversity) is the only target to have been met.

14. **A more sustained effort is needed to achieve other national MDG targets by 2015.** The 2010 target for enrolment in general compulsory education will be missed as enrolment rates have declined consistently since 2003. Women's representation in local public authorities rose slightly between 2003 and 2011, but it is uncertain that the 2015 target will be met, nor the target for women Members of Parliament. The incidence of HIV and the rate of mortality associated with Tuberculosis have both risen since 2002. The 2010 target for access to improved water sources is unlikely to be met, and the 2015 target will require significant investments if it is to be met. Access to improved sanitation is also unlikely to be met. An additional indicator of environmental sustainability, increasing the land area covered by forests, rose slightly from 10.3 percent in 2002 to 10.9 percent in 2009, but neither the 2010 nor the 2015 targets are likely to be met without significant investment.

15. **Moldova made progress in improving the allocative efficiency and performance of its social assistance but the pension system remains a concern.** In 2009 the Government introduced a new targeted cash transfer program *Ajutor Social* and subsequently eliminated the biggest and poorly targeted category-based benefits program, nominative compensations for utilities, and transferred resources via the *Ajutor Social* program to temper the impact of the growing energy tariffs on the poor. Thus, Moldova achieved a more cost-efficient spending mix in its social assistance system. Moreover, the overall targeting accuracy of social assistance (SA) benefits improved: between 2009 and 2011 the share of social assistance transfers received by the poorest 20 percent of population increased from 39 to 42 percent. Short of reforms in its pension system, Moldova remains vulnerable in the face of its rapidly changing demographic landscape with a growing elderly population and shrinking labor force. Moldova has improved its services at the district and community levels to provide better social care to vulnerable groups, such as the disabled, children from poor or troubled families, and the elderly. Community-based social care centers were established, helping decrease the number of people referred to national large-scale residential institutions.

16. **In spite of the global crisis, Moldova has experienced a slow but continuous improvement in basic health and health financing indicators during the CPS period.** Life expectancy has increased from 69 to nearly 71 years, and the crude death rate has been reduced from 12 to 11 per 1,000 population; health insurance coverage has increased from 77 to 81 percent of the population, including all the poor who receive *Ajutor Social* cash benefits; public health expenditure per capita has increased from USD 120 in 2006 to USD 170 in 2011 (from 4.7 to 5.4 percent of GDP), and the share of private out-of-pocket expenditure has decreased from 52 to 46 percent. The Government continues to develop family and primary health programs. Forty four (44) primary care centers have been completed or renovated, and 95 have been made autonomous; initial steps have been taken in the hospital restructuring process, the payment system of hospitals based on diagnosis-related groups (DRGs) has been piloted and will be rolled out to the whole country starting in 2013.

17. **Reforms in the education sector have focused on addressing inefficiencies along with declining quality, and enhancing the relevance of education.** WB support in the education sector focused on improving the quality of education in rural areas and helping implement the national early childhood development program. Only in the 2011/12 academic year did class consolidation start to exceed the pace of student decline (due to demographics), leading to a 1 percent class-size increase in the country. At the same time, the student-teacher ratio started to stabilize at 10.5 students per teacher in spite of continuing student-age population decline. The gross enrolment rate in pre-school education increased from 66.1 percent in 2004 to 77.1 percent in 2010. The Education for All – Fast-Track Initiative (EFA-FTI) supported access to preschool services for about 9,000 children through the renovation and endowment of 65 preschool institutions (6.4 percent of the total); 512 preschool institutions (37.5 percent of the total) were supplied with 31,000 books and other learning materials.

18. **The importance of governance is recognized by the Government, but progress has been uneven.** A civil service reform program has made progress in establishing a merit-based, professional civil service. Legal reforms, strengthened human resource management capacity and a functional civil service training system have been implemented. Performance management systems are being introduced but have not yet been broadly applied. Limited political support may hamper broader systemic changes in the governance culture. A comprehensive initiative has been launched to transform public sector governance through Information and Communications Technology (ICT) and six government e-services have been completed. The project has supported increased transparency through access to information: data sets available on the Open Government Data website increased from 50 in 2010 to 539 by the end of December 2012. Public financial management (PFM) reforms related to Governance and Anti-corruption (GAC), in particular modernization of the public financial management system, have been postponed because of challenges in finalizing a new Integrated Management Information System. There have been improvements in external audit, thereby strengthening accountability for the use of public funds, and progress has been made in the area of public procurement to conform to international standards. Strengthening accountability and transparency in the social sectors has become another area of focus, including social assistance payments and support to the development of health and education information systems.

19. **Despite progress in a number of areas, the political situation meant that the pace of reforms was slower than expected.** The coalition Government elected in late 2009 had significant support from the international community to implement a sweeping reform agenda.

The WBG was instrumental in assisting the Government to identify key areas for reform, some of which, particularly social assistance and education, have begun. In other areas, i.e. reforms to stimulate investment in tradable sectors and to improve the business environment, the pace was much slower. Improvements in governance have not met expectations, and there has been little change in the judicial sector. Many of the difficulties in implementing reforms stem from the realities of coalition politics, and the aspirations of 2009 have not been realized. The CPS took advantage of the election of a strongly reform-oriented Government, but the political environment was not conducive to delivering all expected reforms, thus hampering the delivery of program outcomes.

IV. Development Outcomes of the Country Partnership Strategy

Program Performance

20. The following section describes briefly the contributions of the WBG to accomplishing the strategic goals set out in the CPS PR. CPS CR Table 1 provides a detailed assessment of program outcomes and ratings.

21. **The overall program performance under the FY09-13 Moldova CPS is rated as Moderately Satisfactory.** The CPS achieved good progress on most major expected outcomes, as planned in the original CPS or adjusted at the time of the CPS PR, despite external shocks and internal political changes. Insufficient progress was made on several important outcomes due to overly ambitious targets given the political economy of reforms, and to moderate performance issues. DPOs assisted the Government to take steps towards economic recovery from the global crisis. Good progress was made in improving social assistance, increasing profitability of traditional exports, lowering barriers to private investments in telecommunications, and improving road maintenance. Mixed progress was achieved in the energy sector and on cutting red tape for businesses and individuals. There was little progress in reforming the pay-as-you-go pension system but solid progress was made in reforming and targeting social assistance. Projects supported by the WBG produced concrete development results in areas ranging from enhanced competitiveness of enterprises and the agricultural sector, greater social protection and improved access to education, to improved government capacity to design and implement good policies and manage public resources. The WBG analytical work (including a Country Economic Memorandum (CEM), public expenditure reviews, financial sector reform technical assistance, and a battery of specialized reports) provided clear diagnostics of Moldova's development and reform challenges and helped a new government to prepare a sound development and reform strategy and mobilize impressive development partner support. Partially achieved or missed outcomes in some cases indicate moderate underperformance that demands remedial action, but in most cases they are a combination of unrealistic targets and moderate underperformance.

Pillar I: Improving Economic Competitiveness to Support Sustainable Economic Growth

The goal of the first pillar was to augment the competitiveness of the enterprise sector, with some activities particularly focused on the agro-processing sector, as well as to support development of physical infrastructure critical for improved competitiveness.

Goal 1: Improved competitiveness of Moldova's enterprise sector

22. The three outcomes in the results matrix (meeting quality certification standards, lowering regulatory compliance costs, and increasing the number of enterprises with access to formal sources of investment) have been **achieved**. They represent a small sub-set of indicators

describing the broader issue of competitiveness, which are being continuously addressed as one of the priorities in the Competitiveness Enhancement Project (CEP), Competitiveness DPO, and IFC Advisory Services and financing.

23. Overall, good (although not sufficient) progress was made in addressing constraints facing the private sector. A Competitiveness DPO helped reduce the administrative burden of business regulation, and facilitated the development of the export-oriented real sector through reduction of non-tariff barriers to trade and gradual harmonization of product standards with the EU ones. The original CEP (2005-13) and Additional Financing (AF) (2009-13), helped the Government make substantial progress on regulatory reform; helped companies obtain internationally recognized quality certifications and business development services; and improved metrology, standards, testing and quality (MSTQ) services and infrastructure.

Goal 2: Improved management of the road network

24. Of three outcomes (better maintenance and improved condition of roads, lower vehicle operating costs and increased road asset value), one has been **partially achieved**, the second has been **achieved**, and the third one is **non-observable**. The WB established its leading role in the sector by providing extensive technical assistance on transport and logistics and leveraged substantial resources from other development partners. Although the IDA-financed credit in the road sector was cancelled, road improvements continue to be implemented with other sources of financing provided by the European Bank for Reconstruction and Development (EBRD), the European Commission (EC) and the European Investment Bank (EIB).

25. Possible lessons for the WB: Technical support in the preparation of transport sector strategy has a large impact as it paves the way for future WB and development partner operations and ensures the World Bank's continued presence and leading role, even in the absence of WB financing. Given other development partner preferences to support the rehabilitation of the main road network, the World Bank can optimize development impact by engaging in support for the development of secondary roads essential for better access to social and administrative services.

Goal 3: Reduced energy vulnerability through improved energy efficiency and increased diversification of energy sources

26. Three outcomes (ten percent reduction in energy intensity, ten percent increase in production of energy from renewable sources, and heat, gas, and electricity tariffs at full cost recovery level) have been fully **achieved**. Energy intensity measured by total primary energy use – Ton of Oil Equivalent (TOE) per USD 1000 of GDP (at Purchasing Power Parity rate, 2000) – fell from 0.28 in 2009 by about 10 percent in 2010 and about 11 percent in 2011 when it reached 0.22.

27. The Energy II Project (including AF), future lending (District Heating Reform), AAA work and multiple Trust Funds (TFs) helped finance efficiency improvements, and to define and steer the necessary legislation and policies to achieve improved energy efficiency. The project objectives and the embedded policy dialogue were relevant to all three pillars of the CPS, improving energy efficiency and heating in schools and hospitals and improving the security and reliability of the electricity transmission.

28. IFC's financing of Union Fenosa's investment plan in 2009 helped the largest electricity distributor rehabilitate and rationalize the existing network and substations, and increase operational efficiency, reducing system losses by 7 percent and resulting in avoided greenhouse

gas (GHG) emissions of around 200,000 tons in 2010. In 2012, IFC financed the feasibility study and development costs for a greenfield wind farm. IFC is likely to invest in the project during the upcoming CPS period, contributing to further diversification of Moldova's energy sources.

29. Lessons for the WB: Well-coordinated sector diagnostic work and WB/development partner operations lead to consistent policy advice and changes in behavior to establish and maintain the financial discipline essential for the sustainable operation of the energy sector. Including policy reforms in the investment operations along with development policy operations, accompanied by priority investments, helped to leverage additional domestic and external financing.

Goal 4: Agricultural competitiveness

30. Targets for two specific outcomes (increased number of enterprises with internationally recognized quality certificates from 30 to 80, land re-parceling in 46 villages, and 50 investment grants for addressing climate risks) have all been exceeded and the goal of improved agricultural competitiveness has been **achieved**.

31. A large part of WB lending operations and AAA supported improvements in rural infrastructure, enhancements to competitiveness and mitigating risks in the agricultural sector and related rural activities. The focus on specific agricultural enterprises (seeking to obtain certified quality improvements) and on selected villages (aiming for better land and risk management) provides a well-defined area for the WB's policy and resource intervention. But it also opens issues of consistency and rationale for WB actions when overall agricultural sector performance continues to be hampered by institutional and policy constraints. IFC sought to attract larger players to Moldova's agriculture sector to demonstrate its potential. In 2012, IFC financed the expansion and upgrading of a leading integrated agro-industrial group focused on grain origination trading and oilseed crushing in Moldova, mobilizing an additional USD 40 million through syndication and parallel loans.

32. A lesson for the WB is that the implementation of well-targeted actions is justified by the broader impact achieved through export and income performance and/or roll-out of successful piloted models. Otherwise, meager average sector performance may jeopardize the rationale and success of narrowly focused and pilot operations.

Pillar II: Minimizing Social and Environmental Risks, Building Human Capital, and Promoting Social Inclusion

This pillar comprised a cross-sectoral program to improve the efficiency and quality of public services in social assistance, health care, education, and water supply and sanitation. It also supported efforts to reduce the vulnerability of Moldova's agricultural sector to climate change.

Goal 5: Broader inclusion and better social protection

33. Of the two outcomes set for this goal, one (better targeting of social assistance) has been **partially achieved**, and the other (pension system equity and sustainability) was **not achieved**.

34. Better targeting of social assistance is likely to be achieved beyond the CPS since the impact of major policy reforms in this area will only be measurable by 2014. The Government has started an ambitious reform of its social assistance system. A number of categorical benefits were revised and eliminated in 2012, including a costly nominative compensation program. With

a targeting efficiency of 78 percent, *Ajutor Social* – the targeted social assistance program launched in 2009 – is one of the best targeted last-resort social assistance programs in the region. The WB supported social assistance reform through a results-based project (Strengthening the Effectiveness of the Social Safety Net), which co-financed transitional costs of expanding *Ajutor Social* and invested in improving the administrative efficiency of the social safety net. The share of non-contributory transfers going now to the poorest 20 percent stands at 42.5 percent instead of the targeted 50 percent. Achieving the desired equity and sustainability of the pension system (through greater reliance on actual paid contributions, extended pension calculation periods and other reforms) remains uncertain due to lack of political and social consensus on the nature and scope of reforms. The WB advisory support in this area was not sufficiently effective in the absence of explicit political economy considerations, lack of stronger prior reform advocacy, and insufficient coordination with DPOs and International Monetary Fund (IMF) programs.

35. Two lessons emerge. One is that implementation is a major challenge and often requires more time than anticipated, even when reforms have strong ownership, proper institutional arrangements, and required advisory and lending support. Realistic preparation and determination of achievable outcomes is thus an important aspect of CPS preparation. The other lesson is that advocacy and political economy considerations should precede pension and other difficult social sector and fiscal reforms to avoid weak ownership, opposition or rejection. Detailed lessons on social transfers and pensions are presented in CPS CR Table 1.

Goal 6: Increased quality of and access to education in line with MDGs

36. Out of three outcomes one has been **achieved** (increased access to quality preschool programs) and two have been **partially achieved** (increased quality of education in rural areas and improved efficiency of spending on education).

37. Four WB-financed projects directly supported reforms in these areas. The Quality Education in the Rural Areas of Moldova (QERM) Project has supported government efforts to improve education quality and efficiency. It has contributed to curricula revisions and teaching and learning materials' development; equipping of 1,176 schools with equity school grants and 300 schools with quality grants benefiting students in poor rural schools. It also jumpstarted efficiency reforms in the sector including the initiation of per-student financing, which will contribute to a more efficient use of resources, education planning and monitoring. A recently negotiated IDA-financed Education Reform Project will cement the gains made in efficiency interventions but will focus substantially on the improvement of the quality of education. Moldova also completed successfully two EFA-FTI projects in support of the country's Early Childhood Development Program. These facilitated development and nationwide application of new child-centered curricula, early learning development standards, professional standards for teachers, pre- and in-service teacher training curricula, professional development of principals and preschool teachers. These successful initiatives are currently continued under a follow-up Global Partnership for Education (GPE) Grant of USD 4.4 million (effective as of April 2012).

38. A key lesson is that reforms take time and better outcomes could come years after policy changes and investments, often outside the regular CPS timeframe. Hence, in those cases performance indicators should be monitored beyond current CPS periods.

Goal 7: Improved access to and quality of health, water and sanitation services, and reduced environmental degradation and health hazards

39. The five outcomes related to this goal have been **partially achieved** (increased efficiency of resource use in health sector, better access to quality health services, improved health financial risk protection through increased health insurance coverage, increased number of people with sustainable access to improved water, and ability of state hydro-meteorological service to forecast severe weather).

40. A number of IDA- and TF-financed projects (focused on health services, disease protection, water supply, provision of rural infrastructure through the social investment fund) failed to produce sufficient progress towards achieving the five relevant outcomes. This was partially due to overly elaborate and ambitious targets, and partly due to implementation problems. IFC's investment in the rehabilitation and extension of the City of Chisinau's water and wastewater network is ultimately expected to improve the system's capacity to handle wastewater flows, improve living conditions in areas lacking appropriate sewage infrastructure, and help minimize health risks due to improved coverage and quality of sanitation services.

41. Key lessons are: good indicators are not easy to construct (e.g. number of primary health care visits does not really reflect the efficiency of resource use in the health sector) or properly measure (e.g. quality of specific health services); the gap between government promises (of the size and scope health care services) and ability to deliver defines the space for informal payments (i.e. rationing of limited services); some reforms (such as sustainable access to improved water supply) require both time and huge resources to be implemented.

Pillar III: Improved Public Sector Governance

The third pillar provided cross-cutting support to the strategic goals of the CPS by promoting better public sector governance and modern, efficient, public institutions through a combination of interventions in improving the quality of civil service, developing and implementing public policies, and strengthening processes for resource allocation.

Goal 8: Building a professional civil service

42. Two out of three outcomes related to this goal have been **achieved** (merit system and structure of civil service pay) and one has been **partially achieved** (performance management system).

43. These medium-term reforms have been supported under the IDA-financed Economic Recovery DPO and the Central Public Administration (CPAR) Multi-Donor TF (MDTF). In 2009 the Government revived the Central Public Administration Reform. The foundations for a merit-based, professional civil service were laid through legal reform, strengthened human resource management capacity and a functional civil service training system.

44. Lessons are that: partnerships with the EU and other development partners are critically important for the success of public administration and civil service reforms; and that performance-based management systems in civil service require a lot of time and preparation to be owned by all stakeholders and be properly used.

Goal 9: Increased capacity of the public sector to develop and implement public policies

45. One outcome (sector policies aligned with the National Development Strategy) has been **partially achieved** and one (improved policy coordination) has been fully **achieved**. Both

outcomes have been supported by the CPAR MDTF. Strategic planning and policy coordination capacity has increased, but requires further support to embed it across Government. The CPAR MDTF was recently extended to December 31, 2013 to continue to build the capacity of the State Chancellery and develop a program for improving the quality, transparency and efficiency of administrative public services delivered at the central and sub-national tiers.

46. The general lesson is that pragmatic introduction of simple impact analysis of proposed sector policies helped to ensure policy consistency with the medium-term National Development Strategy, as well as the necessary policy coordination.

Goal 10: Increased transparency and accountability in the management of public monies

47. Of five outcomes related to this multifaceted goal, two have been **achieved** (improved effectiveness of external audit, and increased competition in public procurement) and three have been **partially achieved** or **not achieved** (improved budget classification system, improved management of ICT in the public sector, and improved service delivery in the public sector through e-government and e-services).

48. The outcomes have been supported by the IDA-financed Public Finance Management (PFM) Project, a large number of MDTFs (on strengthening institutional capacity for public sector external audit, improved ICT management and transparency of public sector), as well as ongoing procurement review and AAA work. The main component of the PFM Project is the Financial Management Information System (FMIS), which has not yet been delivered due to factors including contractor performance, relations, and reporting, and the Project was extended to December 31, 2013 to allow for the completion of this very important element of public funds management, supported now by proactive efforts and management on the ground.

49. Overall, of 31 outcomes listed in the original results matrix, 15 have been fully achieved, 13 partially achieved and three missed. Among those partially achieved the outcome on water quality is serious. Others should be considered as warnings and should not derail the performance of the CPS program; they highlight the need for remedial action and close follow-up. Lack of capacity to predict severe weather can be overcome either through improved service or reliance on neighboring countries. Outcomes on pension calculation and introduction of e-government, as well as establishment of the Financial Management Information System (FMIS), are important but missed outcomes which could have been avoided with more realistic targets or more proactive management.

50. Regarding partially achieved and missed outcomes two comments are in order. In some cases they indicate serious underperformance which demands remedial action, either through program re-design or significant changes in allocated financial and human resources. In most other cases they are a combination of unrealistic targets and moderate underperformance. The best solution combines adjustments on both sides.

V. World Bank Group Performance

Country Partnership Strategy Design

51. **This self-evaluation of the FY09-13 Moldova CPS finds that the overall WBG performance was Satisfactory.** Moldova and the WBG promptly responded to external shocks and changes in domestic political circumstances by adapting the CPS to exploit the window of opportunity created by the election of a pro-European coalition Government, and to respond to the challenges to macroeconomic resilience and stability posed by the global financial crisis. The

FY09-12 CPS was prepared during a time of economic and political uncertainty. The CPS design reflected prevailing circumstances and hidden risks, and the program was appropriately kept flexible and adaptable to possible changes and evolving development priorities. Flexibility of the lending program in FY09-10 was largely based on the legacy portfolio of the previous CAS. Of eight operations listed for FY09-10, four were started before the CPS period (i.e. seeking only AF), two were a continuation of the previous series of adjustment credits (PRSCs), and only two were new projects. IFC had no advisory operations in the country at the start of the CPS period, and average annual commitments were around USD 5 million in 2005-08.

52. The CPS capitalized on its flexibility to realign the program focus and increased the lending envelope during FY11-13. The CPS PR endorsed the basic pillars of the original CPS document, but introduced important changes and additions, allowing a focus of lending and AAA activities to enable Moldova to better respond to the challenges posed by the global crisis and better adapt to the post-crisis global economy; enhancing the WBG's ability to assist the reform oriented government in designing critical reforms and policy responses to critical economic and social issues; and realigning WBG resources (along with leveraged resources of development partners) to support Moldova's European integration agenda. The CPS PR was prepared in a very different political and economic environment, which permitted a larger lending envelope (augmented by more than USD 30 million of exceptional IDA financing), and allowed a greater specificity in planning individual operations. In 2011 IFC launched two advisory programs in the Government's priority areas of regulatory reform (with a focus on agricultural competitiveness) and risk management in banks. Annual investment commitments similarly increased, reaching an average of USD 29.2 million per year for IFC's account in 2009-13. The CPS PR added an extra year (FY13) to the program period to enable sustained support to the Government and allow quality preparation of the next medium-term partnership strategy.

53. Changes in the CPS design introduced in the CPS PR reflected new Government priorities. The Government focused on improving the quality of public services, reforming the education system, strengthening public financial management, improving governance, and fighting corruption. Since these priorities matched the three pillars of the original CPS, the progress report focused on accommodating them better in the lending program (through Education Reform, Governance e-Transformation, Agricultural Competitiveness and PFM projects), AAA activities and Advisory Services (education rationalization, programmatic fiscal work, social inclusion and resilience, financial sector risk management, and agricultural competitiveness, etc.), as well as trust funds. The initial reform impetus might have been overestimated, impacting on the achievability of some CPS targets within the CPS timeframe.

54. The CPS design gave a prominent role to the WB's AAA work as a basis of effective development dialogue, policy and investment lending. Both the initial CPS document and the Progress Report planned an exhaustive list of more than forty AAA activities ranging from country studies (like the CEM report on growth issues) and major pieces of economic and social analysis (such as public expenditure and key social sector reviews), to applied analytical and TA work, and assessment of country systems. Evidence suggests that the World Bank's AAA work is in high demand in Moldova and has a large impact on the design and implementation of critical policies in the social sectors, agriculture, energy, and public resource management. A more systematic evaluation of AAA work could provide guidance in further improving this aspect of World Bank work in future country partnership strategies.

55. **The CPS design reflected the WBG's continued effort to fully leverage development partners in project and AAA work and use available trust funds strategically.** Given limited IDA resources, a wide range of country's development needs, and a large development partner presence in Moldova, the WBG has effectively used its convening power, knowledge and operational experience to mobilize development partner support and coordinate many grants (TFs) financing projects and analytical work. This aspect of CPS design gained special prominence after the change of government, when it allowed a coordinated development partner response and an impressive pledge of resources in support of Moldova's reform and EU orientation.

56. **Overall, the CPS design proved effective in meeting the challenges posed by the adverse global economic environment, as well as demands for support coming from the Government elected in 2009.** The design of the initial two-year CPS program was rightly kept underspecified and flexible, thus allowing a slow pace of first year approvals, reflecting the prevailing economic and political circumstances and underlying risks. The design of the additional three years in the CPS PR moved towards more specificity focusing on competitiveness, education and public sector governance, and even greater balance between policy and investment lending. However, this process of adjusting to changing political and economic changes might have overestimated the political economy of reforms and implementation timeframe; hence some goals and specific milestones were non-achievable during the current CPS.

CPS Program Implementation

57. **Moldova continued its partnership with the IDA, the IFC, and the Multilateral Investment Guarantee Agency (MIGA) during the CPS period.** Total new IDA financing of USD 290 million in this CPS represents an increase by USD 31.2 million over the original IDA allocation, reflecting USD 20 million of AF and USD 11.2 million of emergency financial support under the IDA Crisis Response Window to help address the impact of the global crisis. IFC significantly increased its engagement in Moldova over the CPS period, committing a total of USD 146 million to 12 projects, and mobilizing an additional USD 52.6 million from partners. The committed portfolio increased from USD 29.8 million at the end of FY08 to USD 90.3 million as of June 30, 2013. In all, IFC launched three advisory programs focusing on: (i) banking sector response to the global financial crisis, (ii) improving the business climate, and (iii) structuring and implementing healthcare public-private partnerships.

58. **The CPS envisaged annual commitments of approximately USD 45-50 million, and the IDA15 lending envelope of USD 161 million, including an additional USD 20 million received in FY11, has been fully committed for existing projects.** With IDA commitments in FY09 back-loaded, IDA was positioned to assist the authorities in mitigating the impact of the crisis in FY10, with overall IDA commitments reaching USD 69 million. Within this, a USD 25 million Economic Recovery DPO (including USD 11.2 million from the IDA Crisis Response Window) provided much-needed budget support and focused the reform agenda on laying the foundations for post-crisis recovery. Over this period, the WB scaled up financing for five ongoing, successful projects: Energy 2, Moldova Social Investment Fund 2, Rural Investment Support Project 2, Health and Social Assistance, and the Competitiveness Enhancement Project.

59. **Effective CPS implementation helped maximize the impact in a difficult external environment and a changing domestic political landscape.** The CPS program scored a perfect

delivery result in FY11 and experienced small slippages in FY12-13. The CPS PR presented the remainder of the program (USD 120 million) which was fully aligned with the original CPS pillars as it aimed to support competitiveness (USD 60 million split between two DPOs and the Agriculture Competitiveness Project), health, education, and public financial management. Health and Agricultural Competitiveness projects were implemented on time. The implementation of the Competitiveness DPO was delayed and restructured. Due to political uncertainties the Government asked to move to a stand-alone DPO instead of the planned DPO series, and sought to review the scope of the operation. The first DPO was therefore merged with the second and delivered in FY13 for a total of USD 30 million. The amount of the Education Reform Project was increased to USD 40 million to help accelerate the upgrading of hub schools after the Government rolled out per student financing nationwide in January 2013 (with subsequent consolidation of the schools network).

60. The strong emphasis on partnerships with other development partners has proven effective in leveraging financing and reforms. Noteworthy examples include the Rural Investment Support Project and the Moldova Social Investment Fund 2, which attracted the support of other partners (DFID, EC, GEF, KFW, Netherlands, Sida, UNICEF and USAID), with additional financing of USD 24 million and USD 36.4 million respectively. Development partners (DFID, the Netherlands, Sida) have looked to the WB to administer multi-donor TFs for Central Public Administration Reform and support to the Supreme Audit Institution, and they have also provided USD 5.5 million as co-financing to the on-going PFM Project (USD 8.5 million IDA). The Swedish Government, the Austrian Ministry of Finance and the Netherlands Ministry of Foreign Affairs are also providing support for IFC's Investment Climate Reform Project.

61. Strong partnerships have allowed the WB to be more selective in its activities. Following WB assistance to the Government to develop the Land Transport Infrastructure Strategy, the roads sector has attracted financing from the EBRD, EIB, EC, Romania and MCC totaling about USD 550 million and further large funding commitments from the Government of China. The WB has gradually exited the roads sector following the mis-procurement of USD 11 million and given the availability of other development partners to provide more substantive financing to this area. Dialogue on transport policy, linked to the first pillar of competitiveness enhancement, will be maintained through the competitiveness DPO and on Trade Facilitation through a Transport and Logistics Performance Study.

62. The WB has provided significant support to enhance development partner coordination and improve aid effectiveness. In consultation with other partners, in particular Sida and UNDP, the WB supported the development of a new set of Partnership Principles for the coordination and harmonization of external assistance to Moldova, signed in March 2010 by the Government and 22 of Moldova's development partners. The WB used its leading analytical expertise and investment in AAA, i.e. Policy Notes, to engage early with the Government in outlining the ESRP that provided the basis for the CG meeting on March 24, 2010, jointly hosted by the WB and the EU, and where development partners pledged USD 2.6 billion to support key reforms during 2010-13.

63. During the CPS period the IDA portfolio in Moldova has had an overall solid performance. It maintained a disbursement ratio above 20 percent, which reached a record high 35 percent at the end of FY12. On average, it had two problem projects with around 16 percent of the portfolio and 10 percent of commitments at risk. Proactive portfolio management kept the

realism rate at 100 percent. IFC's disbursed and outstanding portfolio in Moldova was USD 90.3 million as of June 30, 2013, having tripled in size over the CPS period. IFC portfolio quality remained high throughout the CPS period, with no non-performing loans (NPLs).

64. IFC's operations in Moldova during the CPS period represented a significant increase in investment and advisory activities directly supporting the three pillars of the CPS. IFC was able to offer new products tailored to changing market conditions, while maintaining a strong investment program, including risk management and non-performing loan advisory services and the scaling up of the Global Trade Finance Program. IFC invested a total of USD 145.7 million in Moldova's private sector and mobilized an additional USD 48.5 million from partners, including commercial banks and other development finance institutions. Financial markets investments and related advisory to domestic banks supported trade and Small and Medium Enterprise finance, as well as risk and NPL management. IFC investments in the real sectors during the CPS period (USD 68.3 million in six projects plus mobilization of USD 52.6 million) supported the rehabilitation of Chisinau city's water and wastewater network and roads, modernization of the country's largest electrical distribution company, early stage development of renewable energy resources, expansion and upgrading of a leading integrated agro-industrial group, and expansion of an export oriented glass manufacturer.

65. TFs are integrated in the WB strategy and support key institutional reforms and project implementation. The WB has administered a substantial TF portfolio, with a largely satisfactory implementation track record. These TFs provided co-financing to IDA operations, financed GEF and carbon operations, and provided other forms of support, including for AAA. The largest TFs included: USD 16.6 million Regional Development and Social Protection TF with the EC, USD 9.9 million Central Public Administration Reform MDTF, USD 8.8 million EFA-FTI grants, USD 4.4 million GPE Grant for pre-primary education, and the recent GEF co-financing (USD 4.4 million) for the IDA-financed Agriculture Competitiveness Project.

66. The Regional Development and Social Protection TF financed by the EC was the largest ever in Moldova's portfolio, being multidimensional, with the objective of reducing economic and social disparities among regions by (i) improving social services at the local and community level; (ii) improving water management, constructing and rehabilitating small-scale water supply and irrigation systems, and adequately equipping water accumulation facilities; (iii) lowering road transport costs for road-users in Moldova, and providing better access to services by improving the condition and quality of its road network; and (iv) improving the quality of sanitary services in Orhei. All objectives were complementary to ongoing IDA-financed operations. The overly complex design of the operation and ambitious DPO generated implementation issues, which were further exacerbated by external factors, such as the Eurozone crisis and governance and capacity issues within the beneficiary Ministry of Environment. The components on social infrastructures and irrigation and water services have been successfully completed. A third component on roads is substantially completed. The fourth component on the construction and operation of a wastewater treatment plant will be completed by June 2013, and the World Bank has mobilized resources under an ongoing IDA project to continue the supervision of this component and stepped up its supervision efforts with four missions in 2012.

67. TFs have been instrumental in strengthening the AAA program as well as being complementary to the lending portfolio. Technical Assistance and sector work support have been provided in agriculture, energy, education, financial sector, and e-transformation. CPS CR Tables 2 and 3 provide additional details.

68. **Overall, this self-evaluation of the FY09-13 Moldova CPS finds that the WBG's performance in CPS program design and implementation was Satisfactory.** On the design side, the WBG was able to produce a flexible and deliberately under-programmed original CPS fitting the economic and political uncertainties prevailing in 2008, and later skillfully use the CPS PR to exploit the window of opportunity created by the election of a pro-reform Government. On the implementation side, the WBG managed successfully the pace and content of lending and non-lending activities during the CPS period, ultimately fully utilizing all available resources and leveraging them ten times with resources of other development partners.

VI. Key Lessons Learned and Recommendations for Moving Forward

69. **Partnership with the client country is a long-term relationship that should be sustained through difficult times of economic and political uncertainty to reap reform gains when windows of opportunity open up.** The FY09-13 CPS took the opportunity when it arose to support the Government in implementing a challenging reform agenda. However, experience has demonstrated the risk to such an approach – the political environment has remained polarized and challenging, hampering the delivery of key reforms.

70. **Advocacy and political economy considerations should precede difficult social sector and fiscal reforms to avoid weak ownership, opposition or rejection.** Delays in some social sector reforms (including in the health sector and on pension reform) reflect real concerns about their impacts. It may be more appropriate to sequence such reforms through more selectivity and based on broad consultation as to how best to address such reform.

71. **Implementation capacity remains a major constraint, meaning a longer time than anticipated to deliver results** even when reforms are fully owned, institutional arrangements are in place and the needed advisory and lending support are available. Underperformance may demand remedial action, either through program re-design or changes in allocated financial and human resources. Unrealistic targets coupled with moderate underperformance determines a combination of both adjustments (to design and resource allocation) and more proactive management. The examples of PFM and e-Government are instructive, taking a long time to deliver results, and requiring strong contract management capacity. In such cases, consideration should be given to increasing supervision and placing senior staff in the field.

72. **Limited IDA resources and a long list of country reform and policy needs often call for a strong prioritization of IDA's lending and non-lending activities.** If resources are too fragmented they will have limited impact, and are difficult to supervise – problems demonstrated in WBG support to the water sector during this CPS. The use of robust growth diagnostic methods may be useful to identify binding constraints and concentrate financial resources and analytical power to make transformative advances in those critical areas.

73. **The WBG is most effective when it combines policy dialogue, knowledge (AAA), lending and private sector investment and advice in support of long-term strategic goals.** Under-investment in AAA can lead to a poor knowledge base from which to develop policy based lending such as DPOs, as was evidence during this CPS. To provide customized world-class knowledge, the WB should evaluate its AAA work, looking especially at its true usefulness in client countries and potential impact. Staff need time and resources to manage AAA which may be limited if the project portfolio is large and/or fragmented, requiring significant implementation support from staff. A more focused portfolio with fewer projects allows greater

resources for policy dialogue and support for AAA as needed. The large investments in education and health projects during this CPS have benefited from this approach.

74. **Preparation of sector strategies confirms the WBG's comparative advantage in enhancing knowledge, and ensures its continued presence and lead role** even when investment projects are not feasible. Sector strategies also allow the WB to optimize development impact by engaging in activities not picked by major development partners. Well-coordinated sector diagnostic work and WBG/development partner operations lead to consistent policy advice and changes in behavior necessary to establish and maintain the financial discipline essential for sustainable operations. Introduction of simple impact analysis of proposed sector policies helps to ensure policy consistency with medium-term national development strategy.

75. **Good performance indicators are not easy to define or measure but are critical.** Realistic preparation and determination of achievable outcomes is an important aspect of CPS preparation. Identifying a set of easily measured and realistically targeted milestones can help provide the right incentives, measure progress in the relevant institutional/policy area and fully define comprehensive monitoring concepts. However, the success of well-targeted actions is better justified by the broader impact achieved through export and income performance and/or roll-out of successful piloted models. Otherwise, meager average sector performance may jeopardize the rationale and success of narrowly focused and pilot operations.

76. **In Moldova, the WBG has an exceptional convening power and ability to coordinate, engage and leverage other development partners on the implementation of a broader strategy.** This was shown clearly in the WB's support to the transport sector and the development of the Roads Sector Strategic Plan. Given the limited resource envelope, it will be important to work further with other development partners who may have additional investment resources, and the WBG will maintain its role as a convener in the development community. The WB will seek increased partnerships with the EU and other development partners to ensure coherence in understanding of and support for critical reforms with a view to achieving maximum impact. A key focus will be on where other partners' resources complement financially the AAA program.

77. **The WBG should seek to use TF resources more strategically to support core objectives.** The WBG should explore opportunities for increased partnerships with the EU and other development partners, and other ongoing/planned TFs. These partnerships will build on the WBG's efforts towards a more programmatic approach to mobilizing and consolidating TF resources in order to reduce portfolio fragmentation and administration costs. TF resources will, to the extent possible, complement limited resources to finance WB staff, building on principles of selectivity, comparative advantage and positive implementation track record.

78. Further lessons from earlier WBG engagement and evaluations are given in CPS CR Annexes 1 and 2 below.

CPS CR TABLE 1: Summary of CPS FY09-13 Program self-evaluation

Outcomes the World Bank expected to influence in the CPS period	Status and Evaluation Summary	Lending and Non Lending Activities that contributed to the outcome	Lessons and Suggestions for the new CPS
PILLAR I. IMPROVING ECONOMIC COMPETITIVENESS TO SUPPORT SUSTAINABLE ECONOMIC GROWTH			
<i>Strategic Goal 1: Improved competitiveness of Moldova's enterprise sector</i>			
<p>1. MSTQ system meeting the WTO commitments.</p>	<p>Outcome 1 has been achieved.</p> <p>Over 5,200 EU compatible standards adopted by September 2012.</p> <p>Over 200 firms had received international certificates of quality by mid-2012, with 250 expected by end of project.</p> <p>The number of accredited testing facilities increased from 36 in 2005 to 121 by September 2012.</p>	<p>Ongoing/Completed Lending:</p> <p>Competitiveness Enhancement Project and Additional Financing</p> <p>Competitiveness DPO</p> <p>Partnerships and TFs:</p> <p>PHRD-Moldova: Competitiveness Enhancement Project</p>	<p>MSTQ is a complex field, which caused delays in the procurement of high-precision metrological equipment. It is necessary to recognize the complexity risks and identify ways to mitigate them from the start of Project.</p> <p>New projects including an MSTQ component should be developed based on detailed study and understanding of the overall MSTQ infrastructure in the country and its development needs.</p> <p>Identify and describe in detail how proposed project activities to enhance the MSTQ infrastructure, will benefit individual companies/private sector (final beneficiaries).</p>
<p>2. Decreased regulatory compliance costs for enterprises from 16 percent in 2007 to less than 12 percent (as measured by Cost of Doing Business survey).</p>	<p>Outcome 2 has been achieved.</p> <p>Regulatory compliance costs significantly decreased from 16 percent in 2007 and have stabilized at 10 percent over the last three years (2010-2012), according to the CODB survey.</p> <p>Regulatory Impact Assessment (RIA) made mandatory for all new legislation in January 2008, with a standardized consultation mechanism, including Government and private sector representatives.</p> <p>Some 1,300 government officials and business representatives trained in principles and techniques of RIA.</p> <p>Yearly number of inspections from State Agencies per company decreased from 17 in 2004 to 5.2 in 2012.</p> <p>Number of days required to register a new company decreased by more than half, from 20 days in 2005 to 9 in 2012.</p>	<p>Ongoing/Completed Lending:</p> <p>Competitiveness Enhancement Project (CEP) and Additional Financing</p> <p>Competitiveness DPO</p> <p>Partnerships and TFs:</p> <p>PHRD-Moldova: Competitiveness Enhancement Project</p> <p>Global Doing Business Report (WB, IFC)</p>	<p>CEP was a good example of a project funding Regulatory Reform activities not supported by other development partners.</p> <p>Key recommendations for the next CPS can be summarized as follows:</p> <p>Ensure clear division of areas supported by various projects of other development partners.</p> <p>Focus CPS Regulatory Reform efforts on priority areas, as identified in consultation with other development partners.</p> <p>State clear terms and definitions of indicators used to measure compliance costs and doing business costs in general. Ensure consistency of such terms and definitions in all project and related documents.</p> <p>Analyze options and plan for post-project funding for Regulatory Reform activities.</p>
<p>3. Increased share of enterprises with access to formal sources of investment</p>	<p>Outcome 3 has been achieved.</p> <p>A fully-functioning private credit bureau was</p>	<p>Ongoing/Completed Lending:</p> <p>Competitiveness Enhancement Project and</p>	<p>The private credit bureau needed an enforcement mechanism in the form of a NBM regulation in</p>

<p>finance from 17.71 percent (2005) to 25 percent (BEEPS survey).</p>	<p>established in 2011, covering the entire banking sector.</p> <p>Payment Services and E-Money Law enacted in September 2012.</p> <p>Capital Markets Law enacted in September 2012.</p> <p>59 loans in a total amount of USD 22.5 million extended to exporting companies from the CEP Credit Line in the period June 2010 to December 2011.</p> <p>17 loans of over USD 7 million extended from a revolving fund established, using repayments from the original CEP credit line.</p> <p>BEEPS survey data will become available in late spring.</p>	<p>Additional Financing</p> <p>Planned Lending: Competitiveness DPO</p> <p>Partnerships and TFs: IFC Global Credit Bureau Group, TA FIRST TA</p> <p>Ongoing/Completed AAA: Financial Sector Monitoring & TA (including Secured Transactions Reform, Modernization of Payment Systems) Moldova Improving Access to Credit Regional REPARIS Program (Road to Europe, program of accounting reform and institutional strengthening) Planned AAA: PSD TA & Analytical work (Priority Issues in MD Private Sector Development) A&A ROSC Update Strengthening auditing and reporting (STAR) in EU neighborhood countries Corporate Financial Reporting Enhancement TA as part of the STAR program</p> <p>IFC: Financing and advisory services to strengthen local bank capacity to serve the MSME sector and manage risk; direct financing in real sectors and regional private equity fund</p>	<p>order to kick-start operations.</p> <p>Enhancement of the legal framework governing financial institutions and financial services is a necessary pre-requisite for the long-term enhancement of access to finance.</p> <p>While work on enhancing the legal framework is on-going, it is important to address current financing deficiencies and needs through dedicated projects, such as the CEP credit line (CL). The CEP CL filled a niche not addressed by other development partners:</p> <ul style="list-style-type: none"> - Specifically targeted to exporting SMEs - Long-term, up to 8 years loans - Both investment and working capital purposes - Choice of currencies (MDL, USD, EUR) <p>Important indirect benefits resulting from the CEP CL:</p> <ul style="list-style-type: none"> - Close monitoring of participating financial institutions (PFIs), thus of the financial system - PFIs improved performance indicators, quality and maturity of capital, enhanced business practices - Transparent, APR-based pricing of the loans - Competitive procurement procedures
<p>Strategic Goal 2: Improved management of the road network</p>			
<p>4. Increased percentage of roads in good or fair condition from 7 percent in 2006--transport costs will be estimated based on the percentage of National Roads in good, fair, and bad condition.</p>	<p>Outcome 4 has been partially achieved.</p> <p>Based on the 2012 road condition survey, the condition of the network of National Roads has improved significantly, with 22 percent in good or fair condition. This is due to (i) increased investment in road rehabilitation, and (ii) increased spending for road maintenance.</p> <p>These results can only partially be attributed to World Banks advisory and lending activities in the sector</p>	<p>Ongoing/Completed Lending: IDA credit for Roads Sector Program Support Project</p> <p>NOTE: Although the bulk of the loan was cancelled due to mis-procurement, the World Bank provided TA on transport and logistics, and leveraged substantial additional resources for the transport sector from EBRD, EC, and EIB.</p> <p>Partnerships and TFs: Regional Development and Social Protection Grant (road component)</p>	<p>The formal adoption of the new Transport and Logistics Strategy (being developed now) will be the basis for continued financial support and coordination by external partners for transport sector development.</p> <p>The World Bank's engagement as a lead development partner in Moldova's transport sector (between 2006 and 2011) has been very fruitful and there is a possibility that the World Bank could take that Lead Donor role again after the MCC compact with Moldova ends.</p> <p>There are three main issues that external partners will be looking for, namely: (i) adequate road</p>

		<p>Ongoing/Completed AAA:</p> <p>Ongoing TA (2012 – 2013) to support the Government in preparing a new Transport and Logistics Strategy, and prioritized Investment and Expenditure Plan.</p>	<p>maintenance funding; (ii) good sector policies, and (iii) absence of corruption.</p> <p>While there is much support by other development partners for rehabilitating the main road network, little is being done so far to ensure access of the rural population to social and administrative services, and this is where the World Bank could come in.</p>
<p>5. Vehicle operation costs on the roads improved under the Road Sector Program have decreased by at least 8 percent according to ex-post economic evaluation.</p>	<p>Outcome 5 has been achieved.</p> <p>Transport costs on road sections rehabilitated under the Road Sector Program have been reduced by about 15 percent on average, based on economic feasibility studies for those roads.</p>	<p>Policy Notes for the Government of Moldova (Delivery date: 16/11/2009)</p> <p>Transport and Logistics Strategy</p> <p>Partnerships and TFs:</p> <p>Additional loans and grants from EBRD, EIB, EC, MCC and China</p>	
<p>6. Increased Road Asset Value from USD 8.4 billion in 2007.</p>	<p>Outcome 6 is non-observable.</p> <p>Valuation of road assets in Moldova is not yet done on a regular basis. The latest full road asset valuation took place in early 2010 and showed a road asset value of USD 4.5 billion. However this number was derived utilizing a different methodology and is not comparable to the baseline number of USD 8.4 billion. Moreover, this number is based on a road condition survey carried out in late 2009 and does not reflect the effects of the new road investments and of the much increased spending on road maintenance of the last three years. It is estimated that about USD 450 million have been invested in road rehabilitation and maintenance between 2010 and 2012. It is therefore likely that a road asset valuation, if it were done now based on the 2010 methodology, would show a road asset value somewhat higher than USD 4.5 billion, though it is not possible to say if it exceeds USD 8.4 billion.</p>	<p>Ongoing/Completed Lending:</p> <p>IDA credit for Roads Sector Program Support Project</p> <p>Partnerships and TFs:</p> <p>EC Regional Development and Social Protection Grant (Roads Component)</p>	
Strategic Goal 3: Reduced energy vulnerability through improved energy efficiency and increased diversification of energy sources			
<p>7. Ten percent reduction in energy intensity measured by the total primary energy use (TOE) per USD 1,000 of GDP at PPP rate.</p>	<p>Outcome 7 has been achieved.</p> <p>A new Energy Law was adopted in December 2009 enabling Moldova to meet requirements and become a full member of the Energy Community Treaty.</p> <p>The Government approved in November 2011</p>	<p>Ongoing/Completed Lending:</p> <p>Energy 2, including Additional Financing (closed on April 30, 2012)</p> <p>Planned Lending:</p> <p>DH Efficiency Improvement</p>	<p>The World Bank financed investment and TA projects and the funds leveraged with other development partners (Sida, EU, etc.), as well as the enhanced coordination among development partners, ensure better consistency of policy advice, and enhance the impact of their activities.</p>

	<p>the Energy Efficiency Program and Action Plan, a milestone for further actions and investments to reduce energy vulnerability and improve energy efficiency.</p> <p>The Government approved the District Heating (DH) institutional, corporate and financial restructuring Concept, allowing vertical integration of Termocom and CHPs and creation of a New Company (Newco), and preparation of a debt restructuring plan with Moldovagaz.</p> <p>Indicator on energy intensity (2009 – 2011) TOE per USD1000 of GDP (PPP year 2000) 2009 – 0.28 2010 – 0.25 – 10.4 percent reduction 2011 – 0.22 – 11.6 percent reduction</p> <p>Targets for public heating were exceeded. 217 buildings (compared to target of 80 buildings) – including schools, hospitals and residential buildings) have heat and hot water throughout the year.</p>		
<p>8. Ten percent increase in production from renewable energy sources (RES).</p>	<p>Outcome 8 has been achieved.</p> <p>Indicator on RES. Share of RES in total gross domestic energy consumption: 2009 – 3.7 percent 2011 – 6 percent -- an increase of 38 percent</p> <p>EC and Sida (EBRD executed) provided TA support to Government and ANRE to work on feed-in tariffs for RES. The feed-in tariffs were developed and have undergone public discussion. Currently, the GoM is drafting amendments to the Law on Renewables to introduce the outcomes of the feed-in tariffs TA.</p>	<p>Ongoing/Completed AAA:</p> <p>Sida TF on Financing Energy Sector Reform and Efficiency Improvements</p> <p>PPIAF: Chisinau Energy Supply Improvement Project</p> <p>Chisinau Energy Supply Improvement TA</p> <p>District Heating Sector Reform TA</p> <p>Public Utilities Subsidies Study (DFID)</p>	
<p>9. Cost recovery of heat, gas and electricity tariffs for all categories of consumers approaches 100 percent, while cash collection ratios stay above 95 percent (for gas and electricity) and 90 percent for</p>	<p>Outcome 9 has been achieved.</p> <p>Tariffs for DH in Chisinau approved by ANRE starting January 2010. All tariffs at cost recovery levels.</p> <p>Cash collections for gas (96.6 percent) and electricity (99.2 percent) are on target. Tariffs for gas, electricity, and heat are set at full cost</p>	<p>Energy Policy Note</p> <p>Policy Notes for the Government of Moldova Partnerships and TFs:</p> <p>CDCF – Moldova Biomass Heating ERPA</p> <p>CDCF – Energy Conservation and Emissions Reduction</p>	<p>Implementation and successful realization of the World Bank-financed projects leads to lowering the risks and increasing attractiveness of further investments. Besides, good results achieved under these projects urge the Beneficiaries to undertake further steps in the same direction, increasing thereby the projects sustainability.</p>

<p>district heat.</p>	<p>recovery levels for all categories of consumers.</p> <p>Cash collection for district heat is about 90 percent and complies with the target level.</p> <p>Fiscal sustainability of the sector remains a concern due to USD 250 million (3.5 percent of GDP) past gas debt of the Chisinau DH sector. Recent DH restructuring Concept should be promptly and fully implemented, including the institutional, corporate and financial restructuring, and orderly servicing of rescheduled debt for imported gas. Efforts to improve the regulatory environment should also continue.</p>	<p>IFC: Advisory service and investment to promote PPPs, energy efficiency credit lines to local banks.</p>	
<p>Strategic Goal 4: Agricultural competitiveness</p>			
<p>10. Number of agricultural enterprises with internationally recognized quality certificates increased from 30 in 2007 to 80 at the end of 2011.</p>	<p>Outcome 10 has been achieved.</p> <p>A total of 125 agricultural enterprises (which exceeds the target of 80) received internationally recognized quality certificates: 90 – ISO9000, 22 – HACCP, and 13 – GlobalGap.</p>	<p>Ongoing/Completed Lending:</p> <p>Rural Investment Services Project 2 Additional Financing</p> <p>Competitiveness Enhancement Project 2 Additional Financing</p> <p>Disaster Risk Mitigation and Adaptation Project</p> <p>Agricultural Competitiveness Project</p> <p>Planned Lending:</p> <p>Competitiveness DPO</p> <p>Ongoing/Completed AAA:</p> <p>Food Security Notes</p> <p>Agricultural Competitiveness TA</p> <p>Country Economic Memorandum</p> <p>Policy Notes for the Government of Moldova</p> <p>Agricultural Sector Policy Revision and Budget TA</p>	<p>The success of agriculture and agricultural producers of a small open economy is highly determined by the international competitiveness of the output produced. The challenge for Moldovan agriculture is huge since compliance with EU SPS provisions is binding for the EU Association Agreement. Significant efforts and resources will be required to pursue the vast SPS implementation agenda.</p> <p>Lack of rural development strategy and policies / policy instruments represent a serious gap in shaping the country's growth and sustainable development agenda. Moldova has an opportunity to benefit from EU ENPARD funds to support agriculture and rural development through targeted investments in the EU neighboring countries. To grasp this important opportunity the Government of Moldova needs to move quickly and firmly in addressing the legal, policy and institutional gaps in the rural development area in view of complying with EU principles for ENPARD allocation.</p>
<p>11. More efficient use of market information and technical knowledge along agricultural value chain leading to (as measured in 6 pilot villages compared with baseline and control cases): (a) Higher output value and</p>	<p>Outcome 11 has been achieved.</p> <p>11.1. Achieved</p> <p>An average of 40 percent of village population participated in land re-parceling implemented in an initial effort, which comprised 6 villages; and an average 20 percent of village population participated in an additional 40 villages. An impact assessment of the pilot villages was</p>	<p>Reducing Vulnerability to Climate Change of Agricultural Systems in Moldova TA</p> <p>Partnerships and TFs:</p> <p>Agricultural Competitiveness Project (GEF)</p> <p>Agricultural Pollution Control Project (GEF)</p> <p>Sida Support to RISP 2</p>	

<p>lower variability; (b) Fewer loss making farms; (c) Higher total factor productivity in surveyed farms.</p> <p>a. Re-parceling activities implemented in another 40 villages, in addition to the 6 pilot villages.</p> <p>b. Strengthened farmers' preparedness to climate risks through information on practical techniques for adaptation, i.e. grants/demonstration about adaptation to climate risks, on a pilot basis: at least 50 investment grants are provided and introduced at demonstration plots.</p>	<p>carried out in 2011, revealing general improvements in the efficiency of farm operations.</p> <p>1,038 rural businesses have been created (as of end-September, 2012) under RISP II, with a first-year survival rate close to 100 percent, and generation of 2645 jobs.</p> <p>11.2. Achieved</p> <p>Growth in lending to agricultural and rural sectors has exceeded targets. It has reached MDL 4.02 billion as of end-May, 2012 (compared to a 2012 target of MDL 2.85 billion and a baseline of MDL 2.14 billion).</p> <p>More than 60 investment grants for adaptation to climate risks provided. More than 35,000 thousand farmers received training and participated in on-site demonstration events for climate resilient agricultural investments.</p>	<p>GFRP Moldova Food Security TA</p> <p>Planned AAA:</p> <p>DCFTA Preparation Support in Agriculture</p> <p>Competitiveness and structural reform follow-up work</p> <p>Skills Measurement Survey</p> <p>IFC: Direct financing to companies in agribusiness, credit lines to local banks, which lend to agribusiness sector and to the rural areas. This will be complemented by IFC expansion of advisory services in the agribusiness sector and for small and medium enterprises.</p>	
PILLAR II. MINIMIZING SOCIAL AND ENVIRONMENTAL RISKS, BUILDING HUMAN CAPITAL, AND PROMOTING SOCIAL INCLUSION			
<i>Strategic Goal 5: Broader inclusion and better social protection</i>			
<p>12. Improved equity and inclusion: increased coverage and maintained targeting accuracy of the <i>Ajutor Social</i> program:</p> <ul style="list-style-type: none"> 20 percent of population in the poorest quintile receive AS benefits. Targeting accuracy is maintained such that at least 65 percent of <i>Ajutor Social</i> transfers reach the poorest population quintile. Spending on categorical benefits reduced by 22 percent. <p>Increased allocative efficiency - categorical benefits consolidation for fiscally sustainable expansion of <i>Ajutor Social</i> program:</p> <ul style="list-style-type: none"> Enhanced administrative efficiency, governance, and 	<p>Outcome 12 has been partially achieved with some milestones still lagging behind.</p> <p>The coverage of the poorest quintile by <i>Ajutor Social</i> benefits increased from 14.3 percent to 14.9 percent between 2010 and 2011. The target of 20 percent coverage was set to be attained by 2016.</p> <p>Seventy-seven percent of the <i>Ajutor Social</i> benefits went to the poorest population quintile in 2011. As such, the Program is one the best targeted last-resort social assistance programs in the ECA region.</p> <p>The GoM continues consolidation of categorical benefits. The costly and inefficient category-based Nominative Compensation program was finally cancelled in mid-2012. This helped to reduce spending on categorical benefits by more than 50 percent in 2012 in comparison to 2010, releasing budget resources for further expansion of the <i>Ajutor Social</i> program.</p> <p>Administrative efficiency in the social</p>	<p>Ongoing/Completed Lending:</p> <p>Health Services and Social Assistance (HSSA), including Additional Financing</p> <p>Social Investment Fund 2</p> <p>Strengthening the Effectiveness of the Social Safety Net (SESSN) Project</p> <p>Partnerships and TFs:</p> <p>EC Moldova Regional Development and Social Protection Grant (Social Component)</p> <p>Grant for Second Additional Financing for the Moldova Social Investment Fund Project (Sida)</p> <p>Community Participation in Post-conflict Regions (Japan)</p> <p>PSIA TF</p> <p>Planned TF:</p> <p>PHRD D&D grant for integration of children with disabilities and special education needs</p>	<p>The 2009-13 CPS set too optimistic results in a relatively short timeframe, particularly in the context of politically-sensitive reforms that usually take longer than anticipated.</p> <p>Cooperation with other development partners has been critical. Joint work with the IMF was important for consolidating benefits in targeted programs while preserving budget overall envelope. Analytical reports contributed by other development partners (e.g. DFID's report on reforming Targeted Social Assistance program) helped inform the World Bank's support in the sector.</p> <p>Exploiting synergies within the World Bank portfolio worked well and there is a room to do more. DPO in combination with results-based financing (RBF) operation proved to be effective in designing policy reforms to improve targeting accuracy of <i>Ajutor Social</i> and expanding its coverage to extremely poor population. RBF also supported implementation of policy reforms by providing customized inputs and expert support from the World Bank.</p>

<p>transparency.</p> <ul style="list-style-type: none"> • Turnaround time for <i>Ajutor Social</i> application processing, including verification and eligibility decision, is reduced to 25 days. • Increased number of Moldova citizens is aware of <i>Ajutor Social</i> (5 percent increase from the baseline). • Process of Social Assistance Automated Information System (SAAIS) introduction is launched. • Social Inspectorate is established and functional 	<p>assistance system remains an issue. The country average turn-around time for processing <i>Ajutor Social</i> applications exceeds the statutory 30 days. Establishment of a modern management information system (SAAIS) is a critical input to improve administration of <i>Ajutor Social</i> benefits. The SAAIS development however experienced multiple delays. Its implementation in 2013 will contribute to increased efficiency of benefits administration at various levels of government.</p> <p>Furthermore, benefits administration is expected to be strengthened through better oversight and control exercised by the Social Inspectorate that was established in 2011.</p> <p>Awareness of the <i>Ajutor Social</i> program increased by 6 percent between 2010 and 2011.</p>		<p>The cooperation and synergies between HSSA and SESSN projects and MSIF II and EC grants proved beneficial both for the World Bank and the client. Building on these successes more can be done by linking health and social care reforms (for instance by turning a share of hospitals into social care institutions) or by utilizing MSIF experience of helping raions to plan for efficient delivery of social care services.</p> <p>Success and sustainability of equity-enhancing reforms greatly depends on how well programs are managed and their objectives communicated to the public at large, as well as on how potential “winners” and “losers” perceive their outcomes. Going forward, efforts to build public support and ensure stakeholders’ understanding will be crucial to the success and political sustainability of these reforms.</p>
<p>13. New initial pensions calculation fully based on actual contributions paid (valorized with wage growth), and the real value of pensions preserved (indexed with inflation rate).</p> <ul style="list-style-type: none"> • More actuarially sustainable retirement age – retirement age equalized and increased for both genders at 6 months increments per calendar year. 	<p>Outcome 13 has not been achieved because of the lack of progress in pension reforms. In 2011, some progress was made in extending the calculation period in the pension benefit formula. The calculation period was set to gradually increase from 30 to 35 years, at 6 months a year. However, this is a fairly slow increase that applies only to male retirees and as such this measure is likely to have a modest impact on pension budget. Moreover, the effect of this policy measure is likely to be diluted by a lack of valorizing (with wage growth) of past incomes for new retirees. Moreover, the determination of benefits is still based on declared wages instead of on contributions paid. This weakens the linkage between the paid contributions and the level of pension benefits, and hence the incentives to participate and contribute to the system.</p> <p>The indexation rules have not been changed either.</p> <p>The retirement age has not been increased.</p>	<p>Ongoing/Completed AAA:</p> <p>Country Economic Memorandum Pension Policy Note Poverty Update and TA Policy Notes for the Government of Moldova Impacts of the International Financial Crisis on Workers’ Remittances, Migration and Poverty in Moldova</p> <p>Planned AAA:</p> <p>Programmatic HD AAA</p>	<p>The lessons mentioned in the outcome 12 above are also true for the pension policies, including timely and thorough consideration of political economy aspects of this yet another redistributive reform; strengthening the leverage through partnerships with IMF and other development partners to influence the pace and depth of reforms; seeking synergy with other on-going/upcoming operations (e.g. with PFM 2 for improved contribution collection).</p> <p>Moreover, continuous engagement is essential to keep the World Bank’s policy advice relevant and to prevent the GoM from shifting the focus of pension reform from the most acute problems in PAYG pillar.</p> <p>Further pension reform engagement may warrant the World Bank’s pursuing advocacy approach – where there is as yet insufficient ownership and public support for the necessary reforms and World Bank efforts would consequently focus on creating greater consensus and demand for change.</p>
<p>Strategic Goal 6: Increased quality of and access to education in line with MDGs</p>			
<p>14. Increased access to quality preschool programs</p>	<p>Outcome 14 has been achieved.</p> <p>Significant increases in gross pre-school</p>	<p>Partnerships and TFs:</p> <p>Education for All—Fast Track Initiative (EFA-</p>	<p>The EFA FTI Grant was relevant and, along with other projects supporting infrastructure</p>

<p>from 71.1 percent in 2008 to 75 percent in 2011 for children aged 3-6 and from 77.1 percent in 2008 to 85 percent in 2011 for children aged 5-6.</p>	<p>enrolment rates, reaching 77.1 percent in 2010 for children aged 3-6, and 97.7 percent in 2010 for children aged 6.</p> <p>6.4 percent of all pre-schools renovated and endowed; approximately 34 percent of pre-school teachers trained and 37.5 percent of pre-schools provided with teaching and learning materials.</p> <p>New policies developed and applied in pre-schools: child-centered curriculum, early learning development standards, and professional standards for teachers, pre-service and in-service curriculum for teachers, and associated guides.</p> <p>The new GPE grant (effective since March 2012) is expected to enhance the above mentioned achievements further contributing to increased access in rural localities with inadequate access to preschool services and to preschool education quality.</p>	<p>FTI) Preschool Phase II (Grant) – closed in November 2010</p> <p>Education for All—Fast Track Initiative Phase III/Global Partnership for Education (GPE Grant) – effective March 2012</p> <p>Ongoing/Completed AAA:</p> <p>TF-EPDF Moldova –closed August 31, 2012</p>	<p>development, contributed to the achievement of the envisaged outcome derived from the Millennium Development Goals stipulated in Moldova’s National Development Strategy.</p> <p>Under the follow-up GPE grant, while the Government continues efforts to expand ECD coverage and address equity issues, a stronger focus will also be placed on enhancing the quality of pre-school services. More efforts are made to promote national policies and legislation, a system wide professional development program for pre-school teachers associated with the provision of modern teaching and learning materials, a school readiness assessment instrument, all expected to contribute towards better educated individuals, in the long run. This vision places Moldova at the forefront of Fast Track Initiative countries.</p>
<p>15. Increased quality of education in rural areas as measured by increased student achievement (baseline 9th Grade National Assessment and Baccalaureate scores identified by subject: achievement will increase by at least 5 percent).</p>	<p>Outcome 15 has been partially achieved.</p> <p>Baccalaureate scores have increased by an average of 3.2 percent since the baseline, and the difference between rural and urban scores has reduced. In 2011, the system for Baccalaureate Examinations was over hauled, making it difficult to report any progress in the improvement of test scores due to issues of comparability. It is envisaged that during the next CPS period, increased quality will be reported based on revised indicators and improved measurements of student outcomes/test scores.</p> <p>Moldova’s performance in PISA is a substantive illustration of the quality challenges the system currently faces. The results on PISA 2009 Plus show that the performance of the country’s 15-year-olds in reading, math, and science is among the lowest in the region. Around 60 percent of Moldova’s 15-year-olds lack the basic levels of proficiency in reading and math literacy needed to participate effectively and productively in the society. These results show the need to continue, consolidate and extend reforms in curriculum,</p>	<p>Ongoing/Completed Lending:</p> <p>Quality Education in Rural Areas Project, including Additional Financing</p> <p>Social Investment Fund 2, including Additional Financing</p> <p>Planned Lending:</p> <p>Education Reform Project</p> <p>Ongoing/Completed AAA:</p> <p>Country Economic Memorandum</p> <p>Policy Notes for the Government of Moldova</p> <p>Planned AAA:</p> <p>Public Expenditure Review Education Chapter/Note (stand-alone)</p>	<p>Moldova Education Reform Project will support the Government of Moldova in implementing reforms strengthening the quality of education through implementation of quality assurance standards for hub schools; upgrade of teachers’ and school directors’ training and remuneration programs; improvement in student assessment systems and in the quality of data and management systems, participation in PISA 2015.</p>

	student assessments, teacher training and textbook design.		
<p>16. Improved efficiency of spending on education</p> <p>16.1. Formula funding, developed in 2008, will be piloted in 2 raions by 2010.</p> <p>16.2. Increased average class size from 22 students in urban areas and 18 students in rural areas in 2007 to 23 students in urban areas and 19 students in rural areas by 2012.</p>	<p>Outcome 16 has been partially achieved.</p> <p>With support from the ongoing Project, the Government piloted since 2010 school optimization and formula funding in two raions (Causeni, Riscani) and surpassed original objectives by expanding formula financing to nine additional rural raions and two urban Municipalities in January 2012. This brought about increases in class-size by the end of 2011/2012 school year by which point a third of the country regions were implementing the per-student financing scheme in schools bringing about a 1 percent increase in class size nationwide. Class-size increased in the first two pilot areas of Causeni and Riscani by 2.3 percent and 3.3 percent respectively since launching the pilots. Still, Moldova has fallen slightly short of reaching its goals in increase in class size. The class-size in urban areas has increased to 22.4 only, while in rural areas it declined to 17.4.</p> <p>Legal changes approved in April 2012 created an enabling environment for nationwide efficiency reform through the introduction of per-student financing into the law on public finances; changes in school ownership from mayors to raion councils aimed to support the optimization efforts at regional level. As a result, per student financing was rolled out nationwide in January 2013.</p>	<p>Ongoing/Completed Lending:</p> <p>Quality Education in Rural Areas Project, including Additional Financing</p> <p>Social Investment Fund 2, including Additional Financing</p> <p>Planned Lending:</p> <p>Education Reform Project</p> <p>Ongoing/Completed AAA:</p> <p>Country Economic Memorandum</p> <p>Policy Notes for the Government of Moldova</p> <p>Planned AAA:</p> <p>Public Expenditure Review Education Chapter/Note (stand-alone)</p>	<p>Based on strong policy work conducted by the World Bank, the Government embarked on an ambitious reform program the key objectives of which are to increase the quality of education and ensure efficient use of financial allocations. This commitment was strengthened further by the passing in Parliament of the much needed and groundbreaking package of amendments to existing laws which will enable implementation of efficiency reform measures, creating fiscal space for increased interventions to improve education quality. It is envisaged that the impact of these reform measures will only be seen at the end of the next CPS period.</p>
Strategic Goal 7: Improved access to and quality of health, water, and sanitation services and reduced environmental degradation and health hazards			
<p>17. Increased efficiency in resource use in the health sector as measured by higher utilization of primary care services.</p>	<p>Outcome 17 has been partially achieved.</p> <p>39 Primary Care centers rehabilitated and 15 in advanced stage of works.</p> <p>74 primary care providers directly contracted by NHIC by end 2012, up from 4 in 2007.</p> <p>Revised curriculum for primary health care staff and managers approved and implemented;</p> <p>62 standardized medical protocols for primary care produced.</p> <p>Primary care visits increased from 2.7 in 2008</p>	<p>Ongoing/Completed Lending:</p> <p>Health Services and Social Assistance, including Additional Financing</p> <p>Avian Influenza Project</p> <p>National Water Supply and Sanitation Project)</p> <p>Social Investment Fund 2, including Additional Financing</p> <p>BOOST analytical work in health sector</p> <p>WHO TA program in health sector</p>	<p>The indicator is of dubious validity, because increased efficiency in resource use cannot be measured by increased number of visits to primary care doctors.</p> <p>The HSSAP has invested intensely on rural primary care infrastructure renovation, with tangible results. Yet, less than one third of the total number of PHCs has been renovated. More importantly, there are other key variables, such as payment systems, incentives, and management capacity, which are more important than</p>

	to 2.8 in 2012 per person per year.	Planned Lending: New results-based project in health care sector in FY15	infrastructure as determinants of sector efficiency, and HSSAP has been actively working on all these other dimensions, with varying results.
18. Improved access to quality health services.	<p>Outcome 18 has been partially achieved.</p> <p>Hospital Master Plan completed and approved in 2010: Government Decision No. 379 dated 07.05.2010 regarding Hospital sector development Program for 2010-2012.</p> <p>New Diagnostic Related Group System piloted in 7 hospitals.</p> <p>Legislative Framework for PPPs established and PPP pilots initiated.</p> <p>80.6 percent of resident population is insured in 2012, and discounts are available to get insurance for self-employed workers.</p> <p>Primary care is free also for non-insured population.</p> <p>Number of GP vacancies in rural areas decreased from 20 percent to 15 percent.</p> <p>The level of citizen satisfaction with public health services increased very slightly from 42.7 percent to 44.6 percent.</p>	<p>Ongoing/Completed Lending:</p> <p>Health Services and Social Assistance, including Additional Financing</p> <p>Moldova Health PPPs (IFC)</p> <p>IDF Grant on building Health Management Information System strategy</p> <p>JSDf for Hepatitis B & C</p> <p>WHO TA program in health sector</p> <p>Planned Lending:</p> <p>New results-based project in health care sector in FY 15</p>	There has been a tangible improvement in the quality of specific services, but much more needs to be done, by establishing clinical protocols, quality enhancement processes in all hospitals, and re-qualifying senior doctors. Insurance access has been increased over the last four years, but more needs to be done to reduce out-of-pocket payments.
19. Increased share of the population with health insurance.	<p>Outcome 19 has been partially achieved.</p> <p>Health insurance extended to include social assistance beneficiaries; incentives for other vulnerable groups and farmers introduced and approved. 80.6 percent of resident population is insured in 2012.</p> <p>Additional financing supported distribution of food packages to 11.6 percent of pregnant and lactating women and 10 percent of children under 2 years in response to the financial and economic crisis.</p> <p>Successful implementation of the Avian Influenza project has established the capacity to monitor and respond to infectious disease outbreaks in both the animal and human health sectors.</p>	<p>Partnerships and TFs:</p> <p>Health Services and Social Assistance, including Additional Financing</p> <p>Agricultural Competitiveness Project (GEF)</p> <p>EC Regional Development Grant (Water and Sanitation component – Wastewater Treatment Plant in the town of Orhei)</p> <p>JSDf for Hepatitis B & C</p> <p>Coordinated Program in the Health Sector (EU)</p> <p>POPS Stockpiles Management and Destruction (GEF, Dutch, Canada)</p> <p>Planned Lending:</p> <p>New results-based project in health care sector in FY 15</p>	The gap between what Government promises and what it is able to provide is the root cause of informal payments. The Government has tried to reduce the size of payments by increasing the medicines reimbursed for those insured, and other measures, but the fiscal situation, the 2008 crisis, and government unwillingness to question the existing financing model and benefit package have impeded greater progress in bridging the gap.
20. Increased proportion of the population with sustainable access to an improved water source, urban and rural (MDGs Indicator	<p>Outcome 20 has been partially achieved.</p> <p>Sector strategy financing revised (funded by EC/ADA).</p> <p>The National Water Supply and Sanitation</p>		According to the official Joint Monitoring Program report 2012, MDG indicator 29 was already at a level of 93 percent in 2000 and reached 96 percent in 2010. A lesson is that for the new CPS, outcomes need to be more carefully

<p>29: by 2010 (FY11) 57 percent and by 2015 (FY16) 68.5 percent.</p>	<p>Project has undergone major restructuring, including a revision of project outcomes and monitoring and evaluation indicators. The restructuring has been completed in September 2012.</p> <p>As of June 2012, 665 people were provided with access to improved water source under the project. Works were to supply an additional 5,970 people were in completion phase.</p> <p>Agriculture (while a percentage evaluation of the achievement is not possible due to the absence of a target, the increase in public awareness of environmental issues in agriculture is significant).</p>		<p>defined.</p> <p>Insufficient project readiness significantly impeded further achievement of CAS outcomes during that period.</p> <p>The definition of realistic, quantifiable baselines and targets at project level is also important prior to implementation to appraise project's potential contribution to CAS objectives.</p> <p>National technical standards are economically sub-optimal, and their enforcement impacts negatively the magnitude of achievable outcomes with limited financing resources</p> <p>In order to ensure sustainability of results, greater focus has to be given to sector policy reforms - tariff policies, and efficiency and cost-recovery of utility operations.</p>
<p>21. Enhanced ability of the State Hydro-meteorological Center to forecast severe weather and improve Moldova's capacity to prepare for and respond to natural disasters, as measured by:</p> <ul style="list-style-type: none"> • More accurate and specific forecasting of weather conditions; • Expanded lead-time of weather warnings to users, particularly Department of Exceptional Situations (DES); • Strengthened capacity to coordinate response to emergencies. 	<p>Outcome 21 has been partially achieved.</p> <p>The State Hydro-Meteorological Service is in the final stage of installation of a Doppler Radar, which when operational will allow for more accurate and localized forecasting, as well as expand lead time of warnings for inclement weather.</p>	<p>Ongoing/Completed AAA:</p> <p>GFDRR: Moldova Post-Disaster (Flood) Needs Assessment</p> <p>Reducing Vulnerability to Climate Change of Agricultural Systems in Moldova TA</p> <p>Planned AAA:</p> <p>Agriculture TA</p> <p>TA / Dialogue on environment investment strategies and integration of environmental considerations in other sectors</p>	
<p>PILLAR III. IMPROVING PUBLIC SECTOR GOVERNANCE</p>			
<p><i>Strategic Goal 8: Building the professional civil service</i></p>			
<p>22. Merit system and ethics improved for civil servants. Basic compliance with the EU civil service assessment requirements achieved.</p>	<p>Outcome 22 has been achieved.</p> <p>New Law on Civil Service enacted in 2009 introduced merit based recruitment and promotion system for civil servants. Merit based employment methods (competition and promotion) used in 65 percent of cases of filled</p>	<p>Ongoing/Completed Lending:</p> <p>Economic Recovery DPO (including CRW allocation)</p> <p>Partnerships and TFs:</p> <p>Public Administration TA—Multi-Donor Trust</p>	<p>Partnership with the EU is critically important for the success of support to public administration and civil service reforms.</p>

	<p>in civil service vacancies at the central level in 2011.</p> <p>Increasing trend of competition based employment at the central government level observed between 2009 and 2011. (Around 40 percent of the appointments to civil service positions at the central level made through competition in 2010-2011, compared to only 16 percent in 2009).</p>	Fund (DFID, Sida, Dutch)	
<p>23. Performance management system in the civil service implemented; annual performance ratings fall into each category of ratings</p>	<p>Outcome 23 has been partially achieved.</p> <p>Personnel performance appraisal system introduced in 2009 and applied since then. 86 percent of civil servants participated in the annual performance evaluation exercise in 2009-2011.</p>	<p>Partnerships and TFs:</p> <p>Public Administration TA—Multi-Donor Trust Fund (DFID, Sida, Dutch)</p>	<p>More time is needed for all the participants to fully understand the system and use it correctly to achieve desirable results (94 percent of evaluated civil servants at the central level received ‘good’ (55.7 percent) and ‘very good’(38 percent) evaluation ratings in 2011, only 6 percent received ‘satisfactory’ rating and there were no ‘unsatisfactory’ cases).</p>
<p>24. The structure of the civil service pay improved by incorporating supplementary payments into the base pay and allowing for less than 20 percent performance bonus.</p>	<p>Outcome 24 has been achieved.</p> <p>The Law on Remuneration System in Civil Service approved in March 2012 and the Regulation on Implementation of the Law on Remuneration (No. 331) set the stage for introduction of a new more transparent salary structure for civil servants as of April 2012. The share of base pay in the new pay structure exceeds 80 percent, and the share of bonuses is less than 20 percent.</p>	<p>Ongoing/Completed AAA:</p> <p>Country Systems Assessment Country Economic Memorandum Policy Notes for the Government of Moldova</p> <p>Partnerships and TFs:</p> <p>Public Administration TA—Multi-Donor Trust Fund (DFID, Sida, Dutch)</p> <p>Planned AAA:</p> <p>Structural reform follow-up work</p>	
<i>Strategic Goal 9: Increased capacity of the public sector to develop and implement public policies</i>			
<p>25. The new sector policies are aligned with NDS, budgeted, and their impact assessed prior to government approval. Any issue on policy impacts are cleared at a technical level prior to policy decision-making by the GO with ministries.</p>	<p>Outcome 25 has been partially achieved.</p> <p>Methodologies for National Development Strategy preparation have been approved and applied.</p> <p>A system of ex-ante policy impact analysis has been developed and introduced in selected policy areas, but is not yet universally applied.</p>	<p>Partnerships and TFs:</p> <p>Public Administration TA—Multi-Donor Trust Fund (DFID, Sida, Dutch)</p> <p>Planned Lending:</p> <p>Competitiveness DPO</p>	
<p>26. Improvement of policy coordination and responsiveness, as measured by increased CPIA indicator from 3.5 to at least 4.0.</p>	<p>Outcome 26 has been achieved.</p> <p>Policy coordination improved through institutional re-structuring; State Chancellery policy coordination function introduced in 2008 increased the efficiency of the policy</p>	<p>Planned AAA:</p> <p>Structural reform follow-up work</p> <p>Partnerships and TFs:</p> <p>Public Administration TA—Multi-Donor Trust</p>	

	<p>coordination efforts at the Central Government level; Capacity of Policy, Strategic Planning and Aid Coordination Department strengthened.</p> <p>Methodology for the development of Institutional Development Plan completed, approved and applied at the level of central government.</p> <p>Overall CPIA score increased from 3.7 (2010) to 3.8 (2011).</p>	Fund (DFID, Sida, Dutch)	
Strategic Goal 10: Increased transparency and accountability in the management of public monies			
<p>27. Improvement of budget classification system, as measured by improved PEFA rating (baseline rating - C, expected rating - A).</p>	<p>Outcome 27 has not been achieved.</p> <p>The Ministry of Finance approved new integrated budget classification and chart of accounts compliant with GFS 2001 in 2011, but it is not used yet. Implementation will be through FMIS, on which progress has been slow, though, if now kept on track, should be implemented in time for the 2014 budget preparation process. No improvement in the respective PEFA indicator rating yet.</p>	<p>Ongoing/Completed Lending:</p> <p>Public Financial Management Project</p>	
<p>28. Improved effectiveness of external audit (PEFA baseline rating C+, expected rating - at least B).</p>	<p>Outcome 28 has been achieved.</p> <p>The scope, nature and follow-up of external audit have improved, as confirmed by an upgrade of the respective PEFA indicator Pi26 from C+ in 2008 to B+ in 2011.</p> <p>The relevance of the Court of Account audits for the managers improved and capacity of CoA staff strengthened (as indicated by the results of stakeholder survey).¹</p>	<p>Partnerships and TFs:</p> <p>Court of Accounts TA -Multi-Donor Trust Fund (DFID, Dutch)</p>	<p>1. Client ownership and strong strategic leadership on the beneficiary side are key to success of institutional development projects.</p> <p>Although the quality of leadership is normally not under the World Bank's control, it is worth investing in the formulation of strategic vision at the start of the project preparation stage. The approach that worked well under this particular project was recruitment of a reputable international strategic advisor for CoA leadership, who was with the CoA throughout the preparation and implementation period. The availability of a clearly articulated strategic vision is also a key factor for efficient development partner coordination.</p> <p>2. Support for development of the external audit function is a key element of strengthening the public financial accountability framework and it is possible for the World Bank to have</p>

¹ See ICM for the respective project for more details on the results achieved.

			<p>impact in this area.</p> <p>SAIs are often viewed as difficult clients and the World Bank sometimes considers them to be outside its targeted audience because they are independent of the government, and lets this function be supported by other development partners. Supreme Audit Institutions are indeed unique, non-executive clients and they require a special approach when designing high impact technical assistance for them. Projects supporting them work well when designed as targeted assistance directly to an SAI, not part of a bigger operation implemented by a government executive entity. This has implications for the design of World Bank programs supporting public finance management (PFM) reform.</p>
<p>29. Increased competition in public procurement (increase in percent of value of all awarded contracts awarded through competitive process).</p>	<p>Outcome 29 has been achieved.</p> <p>Public Procurement Law passed. Brought substantial improvements in the legislative framework and public procurement in line with international standards and practices.</p> <p>AMRPPHA restructured in late 2009 and new Public Procurement Agency (PPA) established under the Ministry of Finance.</p> <p>The use of single source procurement decreased. The value of direct contracts reduced from 6.2 percent in 2009 to 5.6 percent in 2011, after increasing in 2010 to 11.2 percent due to direct contracting under emergency procedures following severe floods and increased training of doctors with only one training agency available.</p> <p>Electronic Government Procurement (e-GP) readiness assessment conducted as part of CPAR. First phase of the e-GP application developed by contracting a private software development company. However, lack of financial resources and no final decision regarding the e-GP business model delayed the implementation of the system.</p>	<p>Partnerships and TFs:</p> <p>Public Administration TA—Multi-Donor Trust Fund (DFID, Sida, Dutch)</p> <p>CPAR in 2010</p> <p>Ongoing/Completed AAA:</p> <p>Capacity building</p> <ul style="list-style-type: none"> • Continuous dialogue • Public Procurement Forum in May 2012 in Albania • Procurement Capacity Building Workshop delivered in June 2012 • IDF Grant preparation and approval in June 2012 	<p>There are still deficiencies in the legislative and institutional framework, which could be addressed by amending the Public Procurement Law, completing missing secondary regulations, including standard bidding documents and standard forms of contracts, improving the existing website of the Public Procurement Agency to make it fully functional to ensure greater transparency, developing guidance notes to and manuals to improve contract administration, improving existing training programs, and ensuring independent complaint handling mechanism.</p> <p>Continued support in strengthening the public procurement system could be focused on:</p> <ul style="list-style-type: none"> • CPAR follow up activities (legislation, SBDs) • Third party monitoring • E-Procurement (IDF Grant) • Outreach and capacity building activities including contract management.
<p>30. Improved capacity and management of ICT in the public sector.</p>	<p>Outcome 30 has been partially achieved.</p> <p>The Governance e-Transformation Project delivered training to 200 civil servants on ICT</p>	<p>Ongoing Lending:</p> <p>Public Financial Management Project</p> <p>Governance e-Transformation Project</p>	<p>There is a need for top-level government ownership of the ICT agenda and good coordination among ministries.</p> <p>Also, the Government needs to allocate budget</p>

	management.	Planned Lending: Public Financial Management 2	for operating cost of systems prior to making capital investments.
<p>31. Improved capacity and management of ICT in the public sector:</p> <ul style="list-style-type: none"> - Governance center set up and operational (staff trained; public support for e-government increased from 53 to 60 percent; percentage of cost recovery of the e-GC increased from 0 to 20 percent). - e-transformation enabling environment present, including the policy, legal and regulatory frameworks (100 data sets available on the Open Government Data website; 2 institutions making datasets available through OGD); <p>Improved service delivery and transparency in the public sector:</p> <ul style="list-style-type: none"> - Shared e-Government infrastructure established (percentage of civil servants using shared e-government infrastructure increased to 5 percent; number of Government databases with central backup increased to 5). - e-services developed (number of transactions completed through Government services portal increased to 100,000 by 2013; average processing time for public services (business licenses) decreased to 3 days by 2013). 	<p>Outcome 31 has been partially achieved.</p> <p>Year 1 activities envisaged under the Governance e-Transformation Project have been delivered, including set-up and operationalization of the e-Governance Center. 241 people trained under the Project. Six e-services completed.</p> <p>Data sets available on the Open Government Data website increased from 50 (2010 baseline) to 539 (end December 2012) with a target of 600 for 2016.</p> <p>Uptake of shared e-Government infrastructure (M-cloud) currently 16 percent – target 25 percent by 2016.</p> <p>Public Services Portal launched making available 299 services online with 57,000 users since launching.</p>	<p>Partnerships and TFs:</p> <p>Public Administration TA—Multi-Donor Trust Fund (DFID, Sida, Dutch) Strategic Development of the Court of Accounts (DFID, Dutch) Dutch Grant for Co-financing of the PFM Project Successor Grant for PFM Project (Sida) Training Capacity Building and Training related to Management of Public Finances (Sida) IDF Grant for Capacity Building in Moldova Public Sector Accounting Project e-Transformation Trust Fund (Dutch)</p> <p>Ongoing/Completed AAA:</p> <p>Public Expenditure Review 2012 Country Systems Assessment Country Economic Memorandum Policy Notes for the Government of Moldova Country Procurement Assessment Report Public Expenditure Review 2 Public Expenditure Review 2011 Moldova e-development TA Citizen Report Card 2010 A&A ROSC Follow-up</p> <p>Planned AAA:</p> <p>Catalyzing open data innovations Public Financial Management TA Apps for good governance in Moldova (Third Party Monitoring Window - CSF Demand for Good Governance) IDF for Public Procurement PEFA (led by the EC)</p>	

CPS CR TABLE 2: Moldova – Planned Lending Program and Actual Deliveries (FY09-13)

CPS Plans (as of CPS preparation date)		STATUS (delivered)				
		USD(m)		USD(m)		
		IDA	TFs	IDA	TFs	
2009	Energy 2 Additional Financing (AF)			Energy 2 Additional Financing (AF)	10	
	PRSC 3 (plus Dutch and DFID TFs)					
	MSIF 2 AF			MSIF 2 AF	5	
				Health Services and Social Assistance AF Grant		7.0
	Health JSDF			JSDF Preventing Hepatitis B&C in Moldova		1.4
				RISP 2 Additional Financing	10	
				PHRD Community Support Program for Sustainable and Integrated Forest Management and Carbon Sequestration through Forestation		1.0
				JSDF Community Participation in Post-conflict Regions		1.9
			Moldova Community Forestry Project		2.6	
	Sub-total	45		Sub-total	25	13.9
2010	Regional Disaster Risk Mitigation and Adaptation (moved to FY11)					
	Competitiveness Enhancement AF			Competitiveness Enhancement AF	24	
	RISP 2 AF (moved to FY09)					
	PRSC 4 (plus Dutch & DFID TFs) (dropped)			Economic Recovery DPO (plus Dutch & DFID TFs)	25	
	Health and Social Assistance AF (moved to FY11)			Swedish Grant for Second AF for MSIF 2		2.3
				MSIF 2 AF	20	
				Moldova Regional Development and Social Protection Grant (EC)		16.6
			Successor Swedish Grant for Public Financial Management Project		2.7	
	Sub-total	45		Sub-total	69	21.6
Sub-total FY09-10		90		Sub-total FY09-10	94	35.5

CPS Progress Report Plans (as of PR date)			STATUS (delivered and ongoing)			
		USD(M)	TFs		USD(M)	
		IDA			IDA	TFs
2011	Disaster and Climate Risk Management	10		Disaster Risk Mitigation and Adaptation Project	10	0.1
	Strengthening the Effectiveness of the Social Safety Net	37		Strengthening the Effectiveness of the Social Safety Net	37	
	Governance e-Transformation	20		Governance e-Transformation	20	
				Sida Grant for Rural Investment Services 2 Project		1.7
				Biogas Generation from Animal Manure Pilot Project		0.9
				Moldova Soil Conservation Project		2.9
	Sub-total	67		Sub-total	67	5.6
2012	Competitiveness DPO 1	20				
	Health Services and Social Assistance AF	10		Health Services and Social Assistance AF	10.2	
	Agricultural Competitiveness	20		Agricultural Competitiveness	18.0	4.4
				Education AF	1.0	
				Moldova - Global Partnership For Education Grant		4.4
				Moldova Governance e-Transformation TF		1.5
	Sub-total	50		Sub-total	29.2	10.3
2013	Competitiveness DPO 2 (dropped)	20		Competitiveness DPO	30	
	Education Program for Results	30		Education Reform Project (increased to USD 40)	40	
	Public Financial Management 2 (possibly moved to FY14)	20		Emergency Agriculture Support Project	10	
	Sub-total	70		Sub-total	80	0.0
Sub-total FY11-13		187		Sub-total FY11-13	176.2	15.9
Total FY09-13		277		Total FY09-13	270.2	51.4

CPS CR TABLE 3: Moldova – Planned Non-Lending Program and Actual Deliveries (FY09-13)

CPS Plans (as of CPS preparation date)		STATUS (delivered)
2009	<p>Country Economic Memorandum: Moldova Growth Study Local Government and Communal Services Moldova Telecom Assistance Poverty Update Pension Policy Note Public Expenditure Review Rural Hazard Risk Mitigation Strategy (JSDF) Governance and Health Reform Financial Sector Reform Grant (Dutch TF) Corporate Financial Reporting TA</p>	<p>Policy Notes for the Government of Moldova Moldova Telecom Sector Assistance Poverty Update TA Pension Policy Note Public Expenditure Review Reducing Vulnerability to Climate Change of Agriculture Systems in Moldova TA Moldova Dutch TF – Financial Sector Reform TA</p>
2010	<p>Energy Policy Note Food security Financial Sector Monitoring Financial Sector Reform Grant (Dutch TF) INF Sector Investment Planning Climate Change Corporate Financial Reporting TA Country Systems Assessment (CPAR, CFAA, PEFA etc.)</p>	<p>District Heating Restructuring Study Food Security TA Financial Sector Reform Grant (Dutch TF) A&A Reforms Implementation Country Procurement Assessment Report Public Expenditure Review 2 MTDS-Moldova Moldova e-development TA</p>
2011	<p>Country Economic Memorandum: Growth Study Accounting & Auditing ROSC follow-up Agricultural Policy Revision and Budget TA Public Expenditure Review Financial Sector Monitoring TA Chisinau Energy Supply Improvement TA Reducing Vulnerability to Climate Change of Agricultural Systems in Moldova TA</p>	<p>Country Economic Memorandum: Moldova Growth Study Accounting & Auditing ROSC follow-up Agricultural Policy Revision and Budget TA Public Expenditure Review Financial Sector Monitoring TA Chisinau Energy Supply Improvement TA Impacts of the International Financial Crisis on Workers Remittances, Migration, and Poverty in Moldova Applications for good governance - Civil Society Fund Demand for Good Governance Leadership Development Program for Moldovan Officials on ICT for Improved Governance and Growth</p>

CPS Plans (as of CPS preparation date)		STATUS (delivered)
2012	<p>Competitiveness and structural reform follow-up work</p> <p>Programmatic fiscal work (including BOOST studies)</p> <p>Financial Sector Monitoring TA</p> <p>Food Security TA</p> <p>Agricultural Competitiveness TA</p> <p>Energy Efficiency TA</p> <p>Education Rationalization TA</p>	<p>Reducing Vulnerability to Climate Change of Agricultural Systems in Moldova TA</p> <p>Moldova: #10112 Payment System Modern</p> <p>Health Boost</p> <p>Financial Sector Monitoring</p> <p>Moldova: Sida TF on Energy Reform and EE</p> <p>Chisinau Energy Supply Improvement Technical Assistance</p> <p>Moldova ESREI TF Components 2 & 3: DH Investment Study and Energy Supply Optimization Strategy</p> <p>PPIAF-Moldova: Chisinau Energy Supply Improvement Project</p> <p>Measuring Impact of School Optimization Reform in Moldova</p> <p>PPIAF: MOLDOVA - Preliminary Support for the Privatization of MoldTelecom</p> <p>Rapid Response Technical Assistance</p> <p>MOLDOVA: Feasibility Study for Cloud-Based Shared Infrastructure PPP</p> <p>Catalyzing Open Data Innovations</p> <p>PEFA (with the EC)</p>
2013	<p>Competitiveness and structural reform follow-up work</p> <p>Financial Sector Assessment Program</p> <p>Corporate Financial Reporting Enhancement TA</p> <p>Public Financial Management TA</p> <p>Energy Efficiency TA (continuation)</p> <p>Social Inclusion and Resilience TA</p>	<p>Priority issues in Moldova's PS Development</p> <p>Financial Sector Monitoring TA</p> <p>Energy Efficiency TA (continuation)</p> <p>Strengthening Public Procurement IDF</p> <p>Trade Facilitation through improved Transport and Logistics Performance</p> <p>DCFTA Preparation Support in Agriculture</p> <p>Programmatic HD work</p> <p>Food Security Notes TA</p> <p>Municipal Water Sector Review</p> <p>Land Governance Assessment Framework in Moldova</p>

CPS CR Annex 1: Lessons learned from past World Bank Group engagement

The FY14-17 CPS design is anchored on both current CPS CR lessons and those learned from past World Bank engagement in the country. A desk review of several evaluations¹ and internal documents² suggests the following main conclusions.

The previous CAS CR drew several lessons from relevant experience: (i) Targeted support (relatively narrow, well-defined objectives) plays an important role in building country systems, enhancing ministry capacity, and enabling the development and implementation of longer term policies and strategies; (ii) Capable and committed government ministries are a critical factor in achieving development objectives; (iii) Cross-sectoral and complementary approaches improve the effectiveness of interventions; (iv) Resources from the World Bank can be directed strategically to leverage those of other partners for optimal development impact; (v) The linkages between economic growth and poverty reduction are not yet sufficiently understood for Moldova; and (vi) Effective, efficient, and transparent public sector management and governance continue to be important for achieving development objectives.

An IEG evaluation of the FY05-08 CAS concurred with these lessons, and added another major observation – the importance (well-illustrated by the World Bank’s experience in Moldova) of grounding country strategies in a realistic appraisal of the political environment for CAS implementation. Such an appraisal can inform positively the selection of areas to support (CASCR lesson (i)), as well strategies for managing CAS implementation risks to maximize the prospects for successful CAS outcomes.

As requested during the FY14-17 CPS Concept Note Review meeting, the team has reviewed more specific lessons pertaining to the Bank’s past and current engagement in agriculture³, aside from the general conclusions on overall strategic engagement and implementation record. The conclusions can be summarized as follows: (i) Coping with the high and increasing volatility of agricultural output requires a focus on development and implementation of weather-related risk mitigation tools and climate change adaptation measures; (ii) Achieving market competitiveness and integration requires a focus on food safety and quality, innovation and investment in market infrastructure, and producer strengthening to ensure improved market access; (iii) Attracting young people in the sector requires better education for farmers and improved incentives to remain and perform in the sector; and (iv) Spurring synergies between agriculture and rural development would help address domestic institutional and policy gaps in the area of rural development and attracting EU ENPARD⁴ funds for rural development.

IEG Evaluations⁵ corroborate these sector-level findings, and add several important overarching conclusions: (i) agricultural projects are less likely to achieve their objectives in countries with weak governance, and governance tends to be weakest where the public sector is most needed to support agricultural development; (ii) institutional issues within the World Bank have also influenced the outcomes of World Bank Group interventions; (iii) only a share of World Bank interventions included support for agricultural activities focused on improving agricultural

¹ IEG CAS CR Evaluation (FY05-08 CAS), 2009.

² FY05-08 CAS CR Moldova; FY09-13 CPS CR.

³ Note on Moldova’s Agricultural Sector and Bank’s Involvement in the sector.

⁴ European Neighborhood Program for Agriculture and Rural Development.

⁵ IEG Review of Growth and Productivity in Agriculture and Agribusiness, 2011. World Bank Country-level Engagement on Governance and Anticorruption.

growth and productivity in poor, agriculture-based economies (the focus shifting in the early 1990s from a narrower focus on agriculture to a broader one encompassing poverty and rural development, which led to a broader definition of objectives in lending to the rural sector and a less direct focus on food production and agricultural productivity); (iv) sustainability of World Bank-supported activities remains a concern.

These call for: (i) ensuring sufficient quantity and quality of Bank AAA and IFC advisory services in agriculture-based economies, linking them closely to lending, and using them to build counterpart commitment and to address constraints along the production chain; (ii) establishing mechanisms to confirm ex-ante if project M&E frameworks are adequate – with clear, relevant, and realistic objectives; thorough cost-benefit analysis; appropriate indicators; and adequate baseline data; (iii) reviewing the human resource base and skill gaps; (iv) increased focus on sustainability mechanisms; (v) assisting countries to make tangible and time-bound governance improvements.

These and the FY09-13 CPS CR lessons have been considered in preparing the FY14-17 CPS for Moldova.

CPS CR Annex 2: Preliminary Lessons from implementation of Projects with ICT Components¹

ICT plays an important role in the World Bank portfolio in Moldova: in FY13, total actual and planned procurement of ICT goods and services was USD 34 million in 13 projects (Table A). In a few cases, the implementation of these programs has resulted in cost or time overruns and in one case in high risks of not achieving project development goals. In the Annual Meetings in Tokyo in 2012, the Moldovan Delegation requested the Bank to carry out an assessment to identify measures that can help enhance the effectiveness of on-going and future projects with ICT components.

In that context, the World Bank² organized two workshops on November 28-29, 2012 in Chisinau to understand the key reasons for the suboptimal performance of some ICT projects in Moldova from multiple perspectives and to provide recommendations to improve the quality and timely delivery of current and future projects. The first workshop gathered private IT companies that had or have contracts under World Bank-funded projects. The second workshop brought together the Project Implementation Units. About 100 participants joined the two workshops.

Part I. Selected challenges in projects with ICT components in Moldova

The workshops identified a number of issues already highlighted in previous reviews³⁴⁵:

- lack of IT project management capacity in the Government
- lack of decision-making among suppliers' counterpart teams in the Government
- unclear requirements and specifications leading to many clarification requests and subsequent extensions of bid submission deadlines
- unnecessary change requests during contract implementation
- increased cost for suppliers during contract implementation due to delays by Government in providing necessary information
- too much paperwork (large bidding documents and required number of bid copies)
- tax issue such as the requirement to export and re-import already imported goods from Moldovan subcontractors if the supplier is a foreign company
- long no-objection procedures, including the time needed to respond to changes of bidding documents and/or bid evaluation reports requested by the Bank after having reviewed these documents
- the standard contract does not provide for any penalties to be applied for delays due to the Purchaser.
- lack of a business process reengineering effort

¹ Invaluable inputs from Elena Corman, Cem Dener, Knut Leipold, Arthur Riel and Sandra Sargent are gratefully acknowledged. This is a preliminary draft note to be completed by June 2013.

² The workshops were organized by the Moldova Procurement Team (Knut Leipold, Elena Corman, Ana Busuioc)

³ Independent Evaluation Group, 2011, "An Evaluation of World Bank Group Activities in Information and Communications Technology". IEG 2011 evaluation screened 1300 projects with ICT components.

⁴ The FMIS Study/Database (April 2011) reviewed about 100 projects with a total of USD1 billion ICT investments.

⁵ Cem Dener et al. FMIS Community of Practice Meeting #17, October 31, 2012, "How to improve the management of complex ICT contracts in FMIS projects".

- ineffective relations between Suppliers and their subcontractors. A recurrent problem is that the Supplier (often a large foreign company) does not pay or makes delayed payments to subcontractors (often a local company) for services already performed.
- flexibility is needed from the Borrower and Supplier side while implementing large scale functional requirements. In the Public Financial Management Project, difficulty in freezing the requirements was one of the key challenges. The Bank tried to help in finding a middle ground between the Ministry of Finance needs and the software capability, but the contracting parties have been rigid in their positions. Unfortunately, the supplier had inadequate quality assurance (QA) mechanisms and this was another challenge. Bank task teams should be better informed about the contract implementation process and how to monitor key aspects.

Part II: Recommendations

To a large extent, the recommendations for the Moldova program are in line with those made in previous Bank-wide reviews⁶, endorsed in management's response to the IEG evaluation, and reflected in the WBG ICT Strategy (2012). Not all these recommendations have been implemented yet.

Improve Design and Quality at Entry

A prerequisite should be a thorough first phase of requirements/architecture, as evidenced from the availability of: business process re-engineering plans, functional requirement specifications, interoperability strategies, information architecture blueprints, and application architecture blueprints.

Ensure that each Bank project with one or more ICT components has an ICT expert on the team to provide strategic advice on integration of ICTs into the sector specific domain and examine the domain for business architecture and business process re-engineering needs. The resultant requirements need to be planned and executed by a client PIU that possess in-house expertise to prepare technical bidding documents and ensure appropriate vendor and contract management.

Improve Bidding Documents and Requirements

The World Bank needs to ensure that each project has an ICT expert available for consultation with the task team and client to ensure the necessary data for solid technical requirements/specifications is properly collected and reported. In addition, the World Bank should require additional procurement personnel with expertise in ICT⁷, or an experienced procurement specialist and an ICT consultant with the required skills.

Software development requirements need to be frozen at one stage during contract implementation to ensure that the Client can test and accept the software based on the agreed requirements. Only in cases when the Client is able to manage an agile method of software development should changes be allowed during software development to avoid more costly change orders with an unpredictable impact on the schedule and cost of the project.

⁶ IEG (2011), FMIS Study/Database (2011)

⁷ The labor market in Moldova may be too thin though for such profile.

Clients have expressed concerns that the Bank procurement and technical review process for the bidding documents takes too long. However, there is evidence that delays originate from the lengthy process of modification of bidding documents by the Client in line with the Bank's comments. Moreover, the problem lies more in the design of an IT system and the resulting requirements/specifications which are often biased in favor of certain manufacturers, and it is therefore recommended that a Bank ICT specialist is on board from the very beginning of the system design. The challenges are compounded by the tendency of Clients across government to ask on an individual basis for the most sophisticated systems, often resulting in duplication of effort and cost. Strong central governance and a central e-government platform is critical to avoid such challenges. Future projects with ICT components in Moldova should consider an approach that is planned in the next round of ICB for the PFM project in Ukraine: publish the Requirements and Specifications section of the future bidding documents on a freely accessible website and/or in UNDB online with the invitation of interested suppliers to submit comments. Useful unbiased comments will be taken into consideration when finalizing the bidding documents. This will help avoid many clarification requests during the bidding procedure. In complex cases, a two-phase approach may be considered.

Strengthen Client Capacity

The World Bank should require the client to acquire appropriate IT/IT Project Management expertise for the PIU to ensure operational and other problems are detected early when they are relatively inexpensive and easy to resolve. Such expertise could also be provided by hiring a consultant. The World Bank should also ensure a Change Management strategy and action plan is in place. The PIU should set up Quality Assurance arrangements independently from vendors, as is already the case for the Governance e-Transformation Project for instance.

Develop a supplier management strategy and monitoring

The Client should take the option in the bidding documents to consider the qualifications of subcontractors for substantial parts of the main contract, thus allowing monitoring subcontractors' performance. It is recommended to revise procurement guidelines to allow Contracts to have significant penalties for subcontractor related problems to provide the suppliers with the incentives to properly supervise and coordinate their subcontractors.

The World Bank should strengthen the supervision of contract management to ensure early detection of complex IT issues. An example of good practice is the weekly monitoring meetings for the Public Financial Management Project. This would require the project team to have an ICT expert, a point highlighted in the IEG report and included in the ICT strategy.

Table A: Moldova: Actual and Planned ICT Procurement in current portfolio

Projects⁸	Amount (USD m)	Selected Implementation Challenges
Health Services and Social Assistance Project	4.5	Time overruns. Supplier and subcontractors issue.
Strengthening the Effectiveness of the Social Safety Net Project	1.1	No specific challenges with IT procurement.
Quality Education in Rural Areas of Moldova	1.1	No specific challenges with IT procurement.
Disaster and Climate Risk Management Project	1.8	No specific challenges with IT procurement.
Public Financial Management Project	10.9	Time overruns. Client capacity issue. Supplier capacity issue. At high risk of failing development objectives.
Governance e-Transformation Project	11.5	Disbursement delays due in part to the time needed to establish new institution. Good performance under IT contracts backed up by a strong IT expertise at the implementing agency.
Central Public Administration Reform	1.0	Time overruns. Requires Business reengineering.
Six Other projects with procurement below USD1 million	2.6	No specific challenges with IT procurement.
Total	34.6	

⁸ Closed projects with a large ICT component, such as the institutional support to the Court of Account (P106219), have been successfully implemented and provide a good source of other favorable factors.

Annex 3: Mapping of Key Development Partner Support to Moldova

Partner	Approximate Annual Funding USD(m) ¹	Key priorities of the Government Action Plan 2011-14											Cross cutting issues				
		Building a State of Law	Economic and Financial Policies						Responsible and Efficient Public Administration	Country Reintegration	Education and Research	Health of the Population	Social Policies	Environmental Protection*	Gender	Governance	Strengthening Civil Society
			Economic and Financial	Competitiveness/	Agriculture	Water and Sanitation	Infrastructure and	ICT**									
Austria	2.6		x			x					x			x	x	x	
China***	9.5																
Czech Republic	4.5	x			x	x		x	x		x	x	x	x			x
Denmark	4.5		x														
EBRD and EIB	90.0						x							x			
EU	120.0	x	x			x	x		x	x	x	x	x	x			
GIZ	n/a	x	x		x				x		x						
IFC	30.0			x	x	x	x										
IMF	80.0		x														
Sweden	16.0	x		x					x					x	x	x	
Switzerland	6.5					x						x					
United Nations	43.0	x		x	x			x	x		x	x	x	x	x	x	x
United States (USAID and MCC****)	65.0	x		x	x		x		x								
World Bank	60.0		x	x	x			x	x			x	x	x		x	

* Includes Energy

** Includes e-Government

*** China signed this grant with the Government of Moldova in 2011, with projects at that time undecided but to be implemented in 2012

**** Annual MCC funding is approximated from the full 5 year grant

¹ Data from Government of Moldova State Chancellery 2011 Annual Report on External Assistance, and Development Partner presentations to the Donor Coordination Group during 2012.

Annex 4: Gender Assessment

A REVIEW OF DISPARITIES IN ENDOWMENTS AND ACCESS TO ECONOMIC OPPORTUNITIES IN MOLDOVA

1. Moldova performs well in some areas of gender equality, yet in others disparities remain. Moldova has taken legal steps towards guaranteeing non-discrimination and promoting gender equality more broadly. Gender equality is included in the constitution and elaborated on in the 2006 Law on Equal Opportunities for Women and Men. The National Strategy on Gender Equality for 2008-2015 establishes policy objectives on gender equality and priority actions. Moreover, Moldova has signed on to a broad range of international conventions that mandate gender equality, including the Millennium Development Goals and the International Convention on the Elimination of All Forms of Discrimination against Women. While the policy foundation for gender equality laid out by the Government of Moldova is laudable, patriarchal norms have proven resistant to change. Policies and laws aimed at enabling gender equality have not been sufficiently backed by adequate resources. In addition, public authorities such as courts have been unwilling or unable to apply gender equality laws (UNDP, 2011b).

I. Gender Issues in Human Capital

A. Education

2. Education is important both for how it provides means to success on an individual level and for how that aggregates to a more capable labor force. Moldova enjoyed nearly universal primary enrollment rates before 2004, providing equal access to both girls and boys. However, an alarming trend in recent years has been falling educational achievement, with Moldovan students attaining average reading scores and below average mathematics scores on the Program for International Student Assessment (OECD, 2010). Gender inequality is still not widely evident in Moldova's education indicators, but it is greatest at higher levels of education where gender disparities in secondary and tertiary education specialization persist.

3. The gender gap in primary and secondary school is negligible though overall enrollment rates are somewhat below the ECA average. Disparities in secondary and tertiary specialization persist such that more boys than girls pursue vocational training (32 percent and 16 percent respectively). Conversely, girls appear to be undertaking secondary specialized or higher education and concentrating in "feminized" fields in tertiary education such as education and healthcare (National Bureau of Statistics, 2010). The reasons behind women's choices of majors are not well researched, however several factors have been identified: a) whether at the time of human capital investment a woman perceives that her lifetime labor force involvement will be long and continuous or intermittent and brief; b) whether women find individuality in their job; and c) whether women are considered "secondary workers" who optimize their time allocation by taking their husbands' labor market decisions as given to them (Goldin, 2006). While tertiary enrollment rates have increased for both men and women since 2000, men lag with a tertiary enrollment rate of 33 percent behind women's 44 percent. Secondary and tertiary schools appear to be the beginning of occupational segregation that eventually results in gender segregation in the labor market.

B. Health

4. The gender differences in mortality rates and life expectancy in Moldova are the most striking gaps in health indicators. The health status of the entire population declined during the transition that followed independence, and life expectancy in Moldova is now among the lowest in Europe, at 73 years for women and 65 years for men in 2010. Moldova's male mortality rate, which is double that of females, is driven by the lifestyle choices of men. The population of Moldova, and particularly men, consume the largest quantity of pure alcohol per capita in the world, and alcohol poses the highest health risk for men (WHO, 2006b). Males are also much more likely to be smokers and to die of lung cancer than females. In 2001, the smoking rate among the male population of Moldova (aged over 18 years) was 43 percent, while females had a smoking rate of only 4 percent.

5. On the positive side, the adolescent fertility rate is low and continues to decline. At the same time, Moldova's total fertility rate has steadily decreased during the last decade and is below the ECA average. Moldova's population is therefore declining while the share of elderly persons, particularly elderly women, is increasing. This demographic shift to a high proportion of elderly, and elderly women in particular, could have important fiscal implications for the pension and social protection systems.

6. Basic maternity services are widely provided with 98 percent of women receiving antenatal care and 100 percent of births attended by skilled health staff. Compared to other countries at the same level of income, the 2010 maternal mortality rate of 45 cases per 100,000 births is low; nevertheless, it represents an increase from earlier in the decade indicating a deterioration in health services for women. Although about 65 percent of the population uses contraceptives, abortion is still used to regulate fertility. Yet the frequency of abortions conducted in unhygienic environments and using unsafe methods is an important risk to maternal health outcomes for Moldovan women, as a third of pregnancies end in abortion (WHO, 2006a; USAID DHS, 2005). Notably, unplanned pregnancies that result in the most abortions in Moldova occur because of unmet need for birth control or using traditional birth control methods that are not as effective in preventing pregnancy (USAID DHS, 2005).

II. Gender Issues in Agency, Entrepreneurship and the Labor Market

A. Agency

7. Human trafficking is a critical issue in Moldova. Moldova is a source country, and to a lesser extent a transit and destination country for both sex trafficking and forced labor (U.S. State Department, 2012). It is estimated that Moldova has one of the highest rates of human trafficking among neighboring countries (GfK, 2006). While the Moldovan government does not yet fully comply with the minimum standards for the elimination of trafficking, it has taken important steps in the past year to address victim protection and prevention of trafficking (US State Department, 2012). Research links the experience of domestic violence, forced marriage and the economic situation in a country to trafficking of women (Ministry of Health, 2006). Indeed, violence against women is one of the most frequent forms of human rights violations in Moldova. According to the 2010 Human Rights Report on Moldova 40 percent of women have been victims of at least one violent episode. However, because of extensive underreporting exact figures on violence against women are expected to be even higher, and continuous monitoring

needs to be put in place. The measures taken within the legal and regulatory framework have not sufficiently addressed domestic violence, and the level of public awareness on the issue remains low.

8. Only 20 percent of representatives in Parliament are female, and representation is even lower in other areas of government (UNDP, 2011a). According to the latest Life in Transition Survey, fewer women than men are members of political parties or have participated in political activities (such as attending lawful demonstrations, participating in a strike or signing petitions). In addition, there is a significant difference between genders in union membership and membership in humanitarian or charitable associations. At the same time, the depiction of men and women in the media continues to be unbalanced.

B. Labor Market and Entrepreneurship

9. The most prominent gender gaps in Moldova lie in access to economic opportunity. Labor force participation in Moldova is well below ECA and EU regional averages, although with a narrower gender gap. The gender gap in Moldova was about 7 percent in 2010 in favor of men, while that in ECA was 20 percent. Nevertheless, only 37 percent of working age women have jobs (Moldova LFS, 2011). Labor force non-participation is likely to be the result of international labor migration, expansion of the number of university students and the ageing of the population (European Training Foundation 2011). Indeed, the reduction in the share of the prime age population is threatening economic growth in the long-run. In order to limit a sharp decline in the labor force and avoid a decline in economic activity, policies to foster women's labor participation rates could be introduced. A first step could be increasing the retirement age for women to be equal with that of men, an increase from 57 to 62. In addition, policies could be implemented to attract inactive women through flexible schemes in the labor force. These measures could sustain economic growth in the medium to long term, lead to higher female participation in the labor force and represent higher economic opportunities for inactive or unemployed women (Sattar, 2011).

10. Gender segregation permeates the labor market. Women are less likely than men to work in the private sector. This trend may be driven in part because public sector jobs are relatively secure and have more flexible working hours allowing women to combine work with family responsibilities. As a result, women's employment is heavily concentrated in the lower paid areas of public administration and education (Moldova LFS, 2011). Additionally, although legislation supports women and men in their parental roles (e.g. maternity benefits of 126 calendar days at full pay), it appears to adversely impact private sector employment of married women at child bearing age (WEF, 2011). Notably, approximately 70 percent of complaints received by the Labor Inspection Department were from women complaining of discrimination in the hiring process, most frequently in the form of being asked about children and being requested to provide medical certificates on pregnancy (Women Organization's Forum, 2006).

11. Due in part to this sector segregation women in Moldova earn 73 percent of what men earn. Women in Moldova are also more likely than men to work less than 40 hours per week (Moldova LFS, 2011). Additionally, women are less likely to advance to leadership positions, and only 8 percent of firms have any female ownership, as compared to 34 percent in the entire transition region (BEEPS, 2009). The exceptionally low representation of women in leadership positions in the private sector may be explained by a number of different factors including the

small share of women among the employed, a large burden of domestic responsibilities, a lack of established performance evaluation and staff promotion mechanisms in the private sector, a social bias against women in senior positions, possibly discriminatory practices, and a near absence of role models. Firms with some female ownership are relatively smaller than firms predominantly owned by men. Notably, about two thirds of companies with some female ownership operate in only three sectors – retail, food and construction. Correspondingly, only 23 percent of firms with some female ownership have invested in R&D (compared to 32 percent of firms solely owned by men) (BEEPS, 2009).

12. Financial inclusion in Moldova is comparable across gender, with the only difference being that women are more likely to use informal borrowing sources (World Bank, 2011a). Although the propensity of women to engage in entrepreneurial activity is relatively high (around 20 percent) compared to the average rate of entrepreneurship among females in ECA, it is still below men's (World Bank, 2011b). Women's ventures are likely to be smaller and less likely to export their products than men's (Aculai, 2009).

13. Further statistics for Moldova broken down by gender are available from the National Bureau of Statistics: <http://www.statistica.md/category.php?l=en&idc=264&>.

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Annex 5: Progress Towards Achieving the MDGs in Moldova

1. Progress on achieving the MDGs in Moldova has been uneven over recent years though those indicators affected by the economic situation are now on track to meet national MDG 2015 targets. The global economic crisis reversed the trend of poverty reduction in 2008-2009 and made achievement of the 2010 target for reduction in absolute poverty look unlikely. A more positive economic environment in 2010 meant that this target was in fact achieved, with 21.9 percent of the population living below the absolute poverty line⁵⁶. This trend continued in 2011, with a corresponding figure of 17.6 percent. Youth unemployment rates also reflected the impact of the crisis. Following a steady decline starting in 2004, the youth unemployment rate rose from 10.1 percent in 2008 to 15.2 percent in 2009. Data for 2010 are not yet available and whilst it is unlikely that the 2010 target will be met, if the more positive economic environment continues, there is hope that the rate will reduce in the future.

2. Other indicators are showing positive trends but fluctuations in recent years give rise to questions as to whether 2015 targets will be met. Women's representation as mayors and as members of parliament increased following the 2007 local elections and 2009 general elections, but the most recent data for women's participation in parliament suggest that, following further elections, only 19.8 percent of seats are held by women⁵⁷. Under-5 mortality rates have already met the targets for 2015, but in recent years the reduction in the rate has stalled, with slight increases between 2006 and 2009. Maternal mortality rates (MMR) have varied widely in recent years and although the table below suggests a positive trend, this was bucked by much higher MMR in 2008 (38.4) and again in 2012 (41).

3. There are several indicators that are unlikely to meet the national MDG targets by 2015. In terms of education, the 99.5 percent literacy target has been met consistently, but the 2010 target for enrolment in general compulsory education will be missed as enrolment rates have declined consistently since 2003.⁵⁸ The incidence of HIV and the rate of mortality associated with TB have both risen since 2002, and fluctuations in these indicators over recent years suggest that neither is clearly on a downward trend yet. The 2010 target for access to improved water sources is unlikely to be met, and the 2015 target will require significant investments if it is to be met. Access to improved sanitation improved only marginally between 2002 and 2008, and again, this target is unlikely to be met. An additional indicator of environmental sustainability (not shown in the summary table below) is to increase the land area covered by forests. This figure has risen only slightly from 10.5 percent in 2000 to 10.9 percent in 2008, and neither the 2010 nor the 2015 targets are likely to be met without significant investment.

⁵⁶ National poverty line.

⁵⁷ DevInfo.

⁵⁸ It is not excluded that the issue is more of a quality of population data because the latest Census (2004) may have introduced upward bias in the projections of the school-age population. Indeed, preliminary indications from a Multi Indicator Clusters Survey (MICS) - undertaken by UNICEF in 2013 - show that enrolment rate is almost universal.

Table A: Selected indicators of progress towards MDG targets

	Baseline*	2009	Target for 2010	Target for 2015
Goal 1. Eradicate extreme poverty and hunger				
Proportion of people under the absolute poverty line	30.2 (2006)	26.3	25.0	20
Goal 2: Achieve universal access to general secondary education				
Enrollment rate in general compulsory education (gross, %)**	95.1	90.7	95.0	98
Rate of literacy of population aged 15-24 years (%)	99.5 (2006)	99.6	99.5	99.5
Goal 3: Promote gender equity and empower women				
Women's representation as mayors	18 (2007)	17.4	---	25.0
Women's representation as members of Parliament	22 (2005)	24.7	---	30.0
Goal 4. Reduce child mortality				
Under-5 mortality rate (per 1,000)	14.0 (2006)	14.3	18.6	15.3
Goal 5. Improve maternal health				
Maternal mortality ratio (per 100,000 live births)	28.0	17.2	15.5	13.3
Goal 6. Combat HIV/AIDS, tuberculosis, and other diseases				
Incidence of HIV/AIDS (per 100,000 people)	10.0 (2006)	17.1	9.6	8.0
TB associated mortality (per 100,000 people)	16.0	19.0	15.0	10.0
Goal 7. Ensure environmental sustainability				
Access to improved water source (% of population)	38.5	55.0	59.0	65.0
Access to improved sanitation facilities (% of population)	41.7	45.9 (2008)	51.3	71.8
Goal 8. Develop a global partnership for development				
Youth unemployment rate (%)	15.2	15.4	9.0	5.0

Sources: *The Republic of Moldova: The Quality of Economic Growth and Its Impact on Human Development*, United Nations Development Programme 2006, *The Second Millennium Development Goals Report, 2010*, *Republic of Moldova*, and *DevInfo* (www.devinfo.org)

* The baseline year for establishing targets is the same as the initial MDG report (2002), except for cases where the estimation methodology was recently modified.

** The data and targets refer to gross enrolment rates for compulsory education (Grades I-IX), not solely secondary education

Annex 6: GAC Filter at the Pre-Concept Stage

Description of proposed intervention	<ol style="list-style-type: none"> 1. Type (Investment, TA, etc.) 2. PDO 3. Components
A. Sectoral Issues	<ol style="list-style-type: none"> 1. What are the GAC issues specific to the sector (related to legal, regulatory and policy framework, enforcement and implementation)? 2. What are the ownership issues in the sector? Is there a reliable reform champion in the sector/project (institution, organization, individual)? 3. What is the track record of the sector in public procurement and financial management? 4. What is the track record of the leadership in the sector? Are there any alleged or confirmed corruption or conflict of interest? 5. Who are the actors to be involved in the project and affected by it? Who are the beneficiaries of the existing system? Who are the winners and losers of the proposed changes? 6. Do vested interests play a major role in policy decisions in the sector? What could be the vested interests involved? 7. Is there a potential for GAC improvement in the sector, including on demand side?
B. Government Issues	<ol style="list-style-type: none"> 1. What is the institutional capacity of the government to absorb the proposed reform? How do we plan to overcome existing capacity challenges? 2. Is there evidence that the government is ready to move with the project? What is government's track record in implementing similar reforms? 3. What is a track record of the local authorities where the project is to be implemented? 4. What is the implementation track record of the implementing agency (Agency)? What is the Agency track record in public procurement and financial management? Are there any past alleged or confirmed abuses? Are there any INT cases with this Agency? 5. Is the Agency fully empowered to implement the project? Who among the counterparts is responsible/accountable for project deliverables? 6. What is the track record of the leadership in the Agency? Are there any alleged or confirmed corruption or conflict of interest problems with the leadership of the Agency?
C. Demand-Side Involvement	<ol style="list-style-type: none"> 1. Who are civil society champions for the reform that the proposed operation supports? 2. How we can use both "policy" and "advocacy" NGOs? 3. Is project going to use CSOs/communities/beneficiaries for monitoring and evaluation, and for implementation? At what stages of the project will CSOs/communities/beneficiaries be involved? 4. Is there an appropriate CSOs capacity to follow on GAC? 5. Is there a consultation/communication strategy for the sector/project? Is beneficiary survey available? How would we know that we have reached the targeted beneficiaries?
D. Partners Issues	<ol style="list-style-type: none"> 1. What are the complementarities with the existing engagement of the development partners? 2. Is it possible to leverage support for this activity?
Conclusion	<ol style="list-style-type: none"> 1. Top three risks identified 2. Can the Bank help mitigate or manage these risks? 3. Given the governance conditions in the sector or agency, how can the project design be adjusted to keep the risk at a manageable level?

Annex 7: Transnistria: A Development Challenge and an Opportunity

1. **Transnistria is the territory of the Republic of Moldova located on the eastern side of the Dniester/Nistru River.** Following the independence of Moldova from the USSR in 1991, Transnistria authorities proclaimed an autonomous Pridnestrovian Moldavian Republic. In March 1992 violence erupted and escalated in a five-month civil war. Despite an effective ceasefire, which has not been broken since July 1992, the status of Transnistria has remained unresolved. It operates as a *de facto* state but its independence has not been recognized by any international party.

2. **Available statistics and anecdotal data suggest that economic and human development challenges are similar on both sides of the river.** Half of Transnistria's small population of 550,000 is working abroad. It is estimated that 10,000-12,000 persons a year leave the region on either a temporary or permanent basis in search of work opportunities elsewhere. From among the human capital remaining in the country, only a quarter of the population is in formal employment. In a 2007 Transnistria survey¹, 44.1 percent of respondents noted that their income is enough only for food and basic needs and 9.8 percent reported that they do not have enough even for food. These data from a 2010 survey² were 27.7 percent and 5.6 percent respectively. Elderly people, persons with a disability and large families with children were identified as the most vulnerable groups in Transnistria in a 2007 household survey. The WB poverty study in Moldova (2009) – excluding Transnistria – concluded that across the life-cycle poverty is concentrated among the elderly and families with children. On both sides there is significant disparity in development between the main cities and rural and provincial areas.

3. **Health issues related to drug and alcohol use and HIV are a concern in Transnistria.** The Moldova MDG report of 2007 notes that 25 percent of the increase in persons diagnosed with HIV between 2002 and 2007, occurred in Transnistria whilst the region represents only a seventh of the total population³. The incidence of HIV in Transnistria is 42.25 cases per 100,000 people, while in the rest of Moldova it is 12.42 per 100,000⁴. The lack of health centers at the village level is a concern, particularly for women, given limited transport options.⁵

4. **Issues of national identity and an uncertain vision for the future are a challenge for young Transnistrians who have spent their entire life in the current geopolitical circumstances.** Almost 72 percent of Transnistrians today declare themselves citizens of Transnistria, with almost 22 percent identifying as citizens of the Russian Federation.⁶ At the same time, youth attitudes in Transnistria and Moldova as to a preferred political system are largely aligned. Forty percent of Transnistrian youth consider Western democracy the best political system, compared to 45 percent on the right-bank, even though these attitudes cannot be interpreted directly as a preference for geopolitical and economic alignment with EU versus a Eurasian Customs Union.

5. **Transnistria's unresolved status discourages investment in Moldova and hinders progress on important international agreements.** While the Government of Moldova is unable

¹ ICAR 'New Age' cited in Bobkova (2009), in *Moldova-Transnistria: Working Together for a Prosperous Future*

² Toal, G. 2012. "Inside ECA's De Facto States: Conflict Dynamics, Attitudes, and Social Development Challenges", unpublished background report prepared for World Bank

³ Millennium Development Goals Report "New Challenges – New Objectives" <http://www.gov.md/doc.php?l=en&idc=447&id=2767>

⁴ UNDP http://www.undp.md/presscentre/2010/MDG%20Report%20II/6_Combating_AIDS_Ro_9_septembrie_2010.pdf

⁵ UNDP/UN Women, JLDP baseline study

⁶ Bobkova (2009)

to establish full control over the country's borders, foreign investors are wary. Making progress on resolving the issue will be a major consideration affecting Moldova's EU integration agenda. The resumption of dialogue – the so-called 5+2 settlement process – in February 2012, after being stalled for six years, provides an opportunity for further progress on the settlement process, although the approval by Transnistrian representatives of the so-called “border law” in June 2013 have heightened tensions between the banks of the Dniestr/Nistru River, and are a major source of risks.

6. The current focus of the international community vis-à-vis Transnistria is on the ongoing 5+2 settlement process. Moldova, Transnistria, Ukraine, Russia and the OSCE are direct participants in this process, and the United States and the European Union act as external observers. Official negotiations were re-launched in February 2012 after being stalled for six years. The process is supported by eleven Working Groups on key sectors where cooperation has been established and has produced some concrete results such as reopening of railway freight traffic through Transnistria. The framework for international support to the settlement process is one of ‘confidence-building’, which is seen as an avenue to cement the positive developments in the negotiation process.

7. Addressing needs within Transnistria now will facilitate its future prosperity, and diminish the costs of its economic integration in the region regardless of its future status. Engagement may focus on (i) assistance to the Settlement Working Groups, and (ii) reconciliation activities that directly benefit communities and vulnerable groups. Development Partner involvement in analysis and knowledge exchange in the Working Groups, and in promoting interactions at the grassroots level, can add value to the settlement process, regardless of the possible outcomes of negotiations. Existing WB options for engagement are consulted with Moldovan authorities and aim at supporting a comprehensive and integrated approach to ongoing confidence-building measures and broader development partner efforts to improve cooperation between the two sides.

8. Analytical work and technical assistance to the settlement Working Groups can help Moldovan and Transnistrian authorities, and Development Partners, obtain better evidence of the development context within the region. Twenty years of closed Transnistrian leadership and limited access to the region have resulted in a scarcity of data on poverty trends, vulnerability, citizens' participation in local development, and the institutional environment for human, social and economic development. There is a recognized need among international supporters of the settlement process for further knowledge gathering and monitoring of poverty and social trends within the region. Support with analytical work would be especially effective in the framework of the Working Groups, which show potential for productive collaboration.

9. The settlement process can also be supported through youth and community-based activities that promote mutual understanding and collaboration between populations on both sides of the river. Such interventions may build on prior successful initiatives such as summer camps for youth and community-based grants, and/or promote knowledge exchange and cooperation between small and medium businesses across the border. Expanded interaction between youth on both sides of the river can create a basis for shared cultural, civic, economic values or, at the very least, enhance tolerance and openness for communication between populations on both sides and decrease the possibility for future ethnic hostility.

Annex 8: Country Systems and the Fiduciary Environment

1. Weaknesses in the Moldovan public financial management system are well understood and a broad PFM reform program is under implementation to address them.

As a result of these efforts, the credibility of the Moldova PFM framework has been enhanced, as evidenced by improvement of Public Expenditure and Financial Accountability (PEFA) scores between 2006 and 2011. This analysis measured the performance of Moldova's public financial management system and provided the basis for discussion regarding further improvements in public financial management. The PEFA assessment concluded that Moldova has an effectively functioning fiscal and budget management system, which has enabled the government to finance and execute a budget delivering public services to the general population.

2. With support from development partners the Government has launched a number of reforms to enhance the quality of PFM, processes and institutions.

Priority reform areas include: (i) improving public resource allocation by introducing modern budget preparation practices; (ii) strengthening financial discipline by modernizing the treasury system and budget formulation and execution procedures; (iii) improving public debt management to minimize debt service costs; (iv) improving fiscal administration and increasing the effectiveness of financial controls; (v) increasing the efficiency of public finance management through introduction of an integrated financial management information system; (vi) improving public investment management practices and (vii) harmonizing the budget and fiscal legal framework with European Union standards. As noted in the 2011 PFM assessment based on the PEFA methodology, Moldova scores relatively well on budget credibility, comprehensiveness and classification, treasury operations (including budget, payroll and expenditure controls), in-year reporting and public access to government budget and financial information. In collaboration with the World Bank (under the Bank's BOOST initiative) Moldova became one of the few countries in the world to publish on the internet item level budget execution data for all institutions in the budget (down to school level). The BOOST database, available on the Ministry of Finance website, is a useful analytical tool to monitor the efficiency and transparency of the use of public funds.

3. While progress has been made in a number of areas, the Government continues to address remaining weaknesses.

Areas for further efforts include: (i) budget preparation and execution (including harmonization with European Union standards); (ii) accounting and reporting; (iii) development of the Financial Management Information System (FMIS) and cash management; and (iv) internal auditing. Consequently, under the Bank's PFM project, the Government is changing public sector accounting and reporting. A new integrated budget classification and chart of accounts is being developed on the basis of the GFS2001 standards, to be launched with a new FMIS. It is expected that in the medium-term the Government will maintain cash-based accounting for the treasury and modified cash based accounting for the budget institutions. The new FMIS will enable the Government to produce consolidated financial statements showing the financial position of the Government, not only budget execution reports.

4. Important steps have been made to develop a modern Supreme Audit Institution.

The Court of Accounts (CoA), with the support of development partners, has made significant progress in implementation of its strategic development plan and is now well advanced in its transformation into an external audit body using international auditing standards. The CoA has initiated performance audit work, which continues to develop.

5. **Procurement reform is also on-going.** Modifications in procurement law brought Moldovan legislation in line with international good practice, and provided a good basis for the public procurement system but there is still room for improvement in the legislative framework. The main challenge is the lack of secondary legislation and inadequate institutional arrangements for a complaints review mechanism. The public procurement reform agenda has the following priorities: (i) implementation of e-Procurement; (ii) the harmonization of national legislation to EU and WTO Agreement requirements in public procurement; (iii) simplification of the public procurement system, increasing the transparency and efficiency of public procurement procedures; (iv) increase in accountability of persons involved in carrying out public procurement procedures. To address these priorities, the World Bank provided a small grant with the objective of improving transparency and efficiency of the public procurement system, focusing on design and roll-out of electronic tools for public procurement and procurement capacity development.

6. A number of existing instruments have already been mobilized through a concerted multi-donor effort and continue to support the government's critical PFM agenda.

Annex 9: Review of the National Statistical System

1. The National Statistical System (NSS) of Moldova is formally composed of the National Bureau of Statistics (NBS) and its territorial subdivisions, the National Bank of Moldova and the statistical departments of central and local public agencies¹. The NBS which supplies most of the official statistics has a coordination role over other parts of the NSS.

2. **The capacity of the NSS is generally adequate as evidenced in a number of independent international assessments.** In 2012, Moldova scored 91 on the indicator used by the World Bank to measure the statistical capacity of developing countries. The indicator² is based on a diagnostic framework along three dimensions: statistical methodology; source data; and data periodicity and timeliness. A composite score for each dimension and an overall score combining all three dimensions are derived for each country on a scale of 0-100. A higher score indicates a higher level of capacity. A recent assessment by Eurostat indicates that the Law on Official Statistics (LOS) is broadly compliant with the Fundamental Principles of Official Statistics of the United Nations, the European Statistics Code of Practice as well as the Eurostat Statistical Requirements Compendium. In assessing implementation, Eurostat also concluded that the principles of professional independence, objectivity and impartiality, and statistical confidentiality are generally upheld.

3. **The NSS generally allows monitoring of the implementation of the National Development Strategy and could support results-based management.** Forty indicators related to the Millennium Development Goals have been published for each year since 2000. The National Bureau of Statistics also makes public (including on its website) a release calendar for a wider range of economic and social indicators. The 2011 edition of the Statistical Yearbook of Moldova - available online as for the previous editions since 2002 - includes over 500 tables and charts. Moldova subscribed to the International Monetary Fund's Special Data Dissemination Standard (SDDS) in 2006 - at that time only the sixth country to move from participation in the General Data Dissemination System (GDDS) to SDDS subscription – an expression of the country's commitment to enhanced data collection and dissemination³.

4. **The NSS does a good job in reporting on the gender dimensions of socio-economic developments.** The NBS disaggregates most demographic, economic and social statistics by sex. Furthermore, it recognizes that gender is foremost about socio-demographic groups and the place and role of women and men in society. Therefore, the NBS strives to ensure that "all statistical data (both those concerning individuals and those not directly linked to individuals) must be collected, compiled and analyzed taking into account gender factors affecting women and men differently"⁴.

5. **While the National Statistical System of Moldova has many strengths, there are a number of areas in which improvements are needed, including the reliability of population data, compliance with international standards and national coverage.** There are major issues with the population data because of the poor quality of the last population census in 2004 and lack of reliable migration data. The 2004 census overstated the size of the population by counting

¹ Article 7 of the Law on Official Statistics (No. 412-XV), December 2004

² World Bank, July 2012, *Board on Statistical Capacity (BBSC)*.

³ The SDDS identifies four dimensions of data dissemination—the data: coverage, periodicity, and timeliness; access by the public; the integrity of the disseminated data; and the quality of the disseminated data.

⁴ http://www.statistica.md/public/files/publicatii_electronice/Gender/Gen_Guide_2008.pdf

as residents Moldovan citizens who have been living abroad for more than a year, a clear deviation from international standards. Migration data are also notoriously unreliable, and estimates of permanent and temporary migrants range from few hundred thousand to close to a million. Population and migration statistics are just a few areas in which international standards are not complied with or outdated standards are still in use (National Accounts and Government Finance Statistics⁵). Lastly, the National Statistical System of Moldova does not cover the Transnistria region, which - in addition to the comprehensiveness issue - compounds the quality issue on a wide range of indicators (trade, migration etc.).

6. Poverty measurement is another area in which the NBS could make further improvement. The NBS publishes poverty data annually. To estimate poverty the NBS uses national poverty thresholds with a food line (based on a minimum calorie consumption which defines extreme poverty) and an absolute poverty line that adds basic non-food items to the food line. A major issue with poverty estimates is high non response rates (above 40 percent). It is not clear what explains the large non response rate but issues with the sampling frame due to the poor quality of population data cannot be excluded. In addition, the NBS has revised - over the years - the sampling methodology and the questionnaire with resulting challenges in the comparability of data. The most recent changes in the Households Budget Survey in 2006 resulted in a sharp drop in extreme poverty from 2005 to 2006 (4.5 percent versus 16.1 percent). In the 2011 Country Economic Memorandum⁶, comparability techniques revealed that the aggregate poverty rate did not change much from 2005 to 2006, but extreme poverty may have increased in 2006. On the other hand, it seems there is no comparability issue for the poverty data from 2006.

7. The NBS has a broad positive image among users in Moldova, and making more effective use of the consultation mechanisms set forth by the LOS will help improve the quality of statistics while enhancing the image of NBS. Two opinion surveys posted on the NBS website describe a generally positive assessment of the NBS by the public⁷. In the context of the 2006 ROSC, IMF staff conducted a survey of users of macroeconomic data, and found that 74 percent of respondents rate as better (14 percent) or the same (63 percent) the quality of official statistics in Moldova relative to other CIS countries. The second survey⁸ is somewhat ambivalent as only 35 percent responded that they trust NBS data, and another 16 percent have trust on selected categories of data. Areas that draw most skepticism are living conditions, labor and employment, population and external trade. This latter survey suggests that the NBS could improve the quality of data and raise trust levels by engaging more with users of data. Indeed, the LOS has set up a Statistical Council⁹, a consultative body whose role is to "develop and promote official statistics, assure an objective, transparent, and scientific character of the methodologies, indicators and classification". Although nonofficial members are a minority, the Statistical Council has broad representation¹⁰. Unfortunately, the Council has not met often since it was established and was not involved in recent reform plans of NBS.

⁵ The National Accounts are based on the SNA 1993, and the Finance Statistics on the 1986 IMF Manual.

⁶ Moldova After the Global Crisis: Promoting Competitiveness and Shared Growth, Report No. 55185-MD. April 4, 2011. The World Bank.

⁷ <http://www.statistica.md/pageview.php?l=en&idc=399&>

⁸ National Association for Rural Development (OIKOS), 2008 "Public Opinion Poll concerning the data users' satisfaction with available statistical data from the National Bureau of Statistics". Final Report.

⁹ Article 12 of the LOS

¹⁰ The Council for Statistics is composed of three representatives of the central statistical body, one representative of the Moldovan Academy of Science, one representative of the National Bank of Moldova, five representatives of the specialized bodies of the central public authorities, one

8. **Moldova is taking a number of steps to address the shortcomings of the National Statistical System.** A population census is planned in 2014, and a pilot survey will be carried out in April 2013 to test the sampling frame and the questionnaire. The NBS has received technical assistance from UNFPA so this next census is done in line with international standards. The NBS has also developed a Strategic Development Plan (2012-14) which has a medium term priority of harmonization with the EU *acquis communautaire* in the statistical domain (which will address the needed alignment with international standards). However, the SDP has not yet been approved by the Government. While progress in the coverage of the Transnistria region will depend on the broader reintegration agenda, the NBS could take immediate concrete steps in updating the Strategic Development Plan (SDP), in close coordination with the Statistical Council which can be revived, and seeking endorsement and financing of the SDP by Government.

9. **External partners have been providing strong support to NBS and the development of the NSS.** Bilateral partners include France, Norway, Romania, Sweden and Turkey. In particular, the Government of Sweden financed most of the first post-independence Agricultural Census in 2010. Besides the World Bank, multilateral partners include the IMF, UN Agencies - especially on gender issues but also in covering social indicators from the Transnistria region - and Eurostat.

10. **The World Bank will continue support to the NSS during implementation of this CPS.** Ongoing operations in the finance, health, education and social protection sectors aim to help Moldova set up modern and effective Management Information Systems. With the Governance and e-Transformation project, the World Bank is also supporting the open data agenda of Moldova. In the course of CPS implementation, the World Bank will use its planned activities on poverty assessment and Transnistria issues to help build capacity in the NBS. The NBS has also requested access to the ECASTAT Trust Fund in support to the implementation of its development plan, and the World Bank will consider such an application to assist the NBS in the preparation of the population Census, strengthening capacity on gender statistics, poverty analytics and strengthening of the institutional framework through the revival of the Statistical Council.

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representative of the specialized higher education institution, one representative of the trade unions, one representative of mass-media, one representative of the employers' organizations and, one representative of the business sector.

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Annex 10: CPS Stakeholder Consultations and Client Opinion Survey Findings

Rationale and Approach

1. **The World Bank Country Team for Moldova initiated a comprehensive consultation process as part of the preparation process of the new Country Partnership Strategy with the Republic of Moldova for FY 14-17.** These consultations were to capture the views and recommendations of key government and non-government stakeholders, and to take stock of the stakeholders' opinions of World Bank assistance to the country.

2. **A two-phase consultation process was launched in July 2012 and completed in January 2013.** The first phase encompassed the Country Opinion Survey (COS) exercise. The second phase (mid-November 2012 – early January 2013) included a series of face-to-face consultations with central and local public authorities, parliamentarians, political parties, the development partner community, non-government organizations, professional unions, private sector enterprises, academia, students, think-tanks and a range of key sectorial stakeholder groups, covering education, social protection, pensions, health, ICT, agriculture, environment and climate change, private, financial and banking sector and youth. The face-to-face consultations were complemented by an online consultation effort, which included the creation of dedicated webpages in English and Romanian, providing information on the proposed CPS priorities and offering website visitors the opportunity to comment on them.

3. **The CPS consultation process was a team effort, engaging colleagues from all sectors, national and HQ-based staff in an effort to capture the opinions, expertise and advice of an extremely broad range of Moldovan stakeholders in the development of the new CPS.** The general consultations provided the opportunity to address and engage a diverse audience, capturing a wider array of suggestions and opinions regarding the Bank's work across sectors and ways in which it can deliver its mandate more effectively. Dedicated sectorial consultations provided a platform to drill into sector-specific issues and, having been moderated by sector staff, have proven useful in capturing a more focused and targeted set of advice and recommendations.

Client Opinion Survey

4. **The COS collected opinions on the Bank's role and effectiveness in the country and its role moving forward.** The survey also gathered feedback on the perceptions of stakeholders in Moldova of the World Bank's results, knowledge agenda and information/communication efforts. Between July and August 2012, 303 (an 80 percent response rate) stakeholders provided their opinions on the Bank's assistance to the country. Participants in the survey were drawn from among a range of central public institutions; implementation agency; consultants/contractors working on World Bank-supported projects/programs; project management units (PMUs) overseeing implementation of a project; local government officials or staff; bilateral and multilateral agencies; private sector organizations; the financial sector/private banks; NGOs, including community-based organizations (CBOs); the media; independent government institutions; trade unions; academia/research institutes/think tanks; and the judiciary branch. Respondents were asked to comment on general issues facing Moldova; their overall attitudes toward the World Bank; the Bank's effectiveness and results; the Bank's knowledge; working with the Bank; the Bank's future role in Moldova; and the Bank's communication and information sharing in Moldova. The main findings are summarized in the text box below.

CLIENT OPINION SURVEY MAIN FINDINGS

Stakeholders overwhelmingly identified growth as the most critical development priority in Moldova. At the same time the respondents indicate clearly, throughout the survey, that governance and anti-corruption are of great concern and that improvement in this area is critical for sustainable economic growth. Stakeholders report that it would be of great value for the Bank to engage in the most critical areas of development including governance and corruption and growth. In addition, a quarter of respondents also see a key role for the Bank in agriculture. Survey results demonstrate that respondents believe the Bank is relevant in Moldova and ratings on whether the Bank supports realistic strategies for the country have improved since FY 08.

The Bank's greatest strength on the ground is the way it works with Government clients, and the relationships it has fostered. The Bank receives very high ratings in areas such as straightforwardness and honesty (improved since FY 08), staff accessibility (improved since FY 08), follow through, collaboration with Government, and even collaboration with groups outside Government. In addition, respondents provide high ratings for the way the Bank works in terms of the conditions it imposes, how quickly it disburses funds, its monitoring and evaluation.

The COS results show that perceptions of the Bank's effectiveness are not equal across all sectors. Perceptions in certain areas (only some are comparable to FY 08 due to question wording or inclusion) have improved including in agriculture, health, gender, education, public sector reform, climate change. The Bank's work in governance and corruption, and law and justice, receive the lowest effectiveness ratings across the board, followed by the Bank's work on job creation and employment.

A majority of respondents believe that the Bank's greatest value in the country is related to its financial resources. This is followed by technical assistance. Aligned with these findings, respondents report that the most effective instrument in Moldova is the Bank's investment lending, followed by technical assistance and capacity building. Views of policy based lending are much less positive. Looking forward, respondents note that reducing the complexity of its lending and improving the quality of its experts on the ground would do most to improve the Bank's work in Moldova. Some respondents said that the Bank should offer more innovative financial products in the country.

Finally, the survey strongly suggests that the closer the stakeholders are to engagement with the Bank (in contrast to just identifying themselves as observers) the more positive they are about every indicator measurement in the survey. This supports continued and strategic efforts to engage with key stakeholders to ensure productive and effective collaboration and partnerships that lead to more effective development results on the ground. The survey findings demonstrate that the Bank has done an excellent job in establishing strong relationships in Moldova, but it might be worth further consideration of, and reflection on, the specific results on the ground.

Face-to-face and online stakeholder consultations

5. The World Bank Country Office held face-to-face consultations with a representative pool of stakeholders from mid-November 2012 – early January 2013. The stakeholders included central and local public authorities, academia, students, think-tanks, non-governmental organizations, private sector entities, the development partner community, parliamentarians and political parties. A special focus was placed on reaching out to stakeholders in the regions and a total of five consultations were held in various parts of Moldova to ensure adequate geographic coverage (Balti, Cahul, Comrat, Orhei, and Ungheni). In addition, dedicated sectoral consultations were held on education, social protection, pensions and health, ICT, agriculture, environment and climate change, private, financial and banking sector and youth to capture to the greatest extent possible sector-specific recommendations and suggestions.

6. Around 500 people participated in the face-to-face consultations. These included professionals of all ages, as well as students in three locations (Comrat and Balti Universities and Moldovan Academy of Economic Sciences in Chisinau). There was representation from local public authorities, including heads of the local employment offices, city mayors, deputy mayors and councilors, heads of city/county departments in charge of public services (education, social protection, health, etc.) and executives. Non-government organizations at local level and national level, including members of the National Participation Council, attended the consultation events. Sectoral consultations involved key sector experts and policymakers, implementing agency and project staff and experts from the non-government sector. The CPS was consulted with all major political parties and a separate presentation was held in Parliament in front of the members of the Standing Committee for Economy, Budget and Finances.

7. The online consultation effort included the creation of dedicated webpages in Romanian and English on the World Bank Moldova website, containing information about the World Bank, current and past work and proposed priorities for the new CPS. The pages were accessed by 193 people.

8. These consultations identified the following main areas of importance: private sector development, access to finance, and FDI; skills mismatch, labor market reforms and job creation; education efficiency and relevance; rural development and employment; energy efficiency and security; environmentally friendly and clean practices; agricultural competitiveness; health, social protection and associated vulnerabilities; transparent use and monitoring of public money; country reintegration; and other.

9. The main suggestions and recommendations for WBG's operating focus can be summarized, but not limited to, as follows: i) enhance accountability and strengthen monitoring tools; ii) ensure ownership and public participation in promoting and implementing the reform agenda; iii) use its analytical strength as a platform for future reforms in above-mentioned sectors; iv) step up its efforts on the governance front; v) continue to provide support for institutional and capacity building; and vi) build partnerships with other development actors for greater impact.

Annex 11: Overview of Main Trust Funds in Moldova

1. **Trust Funds are integrated in the WBG strategy and support key institutional reforms and project implementation.** During the CPS period, the TF portfolio has considerably dropped in size, from USD 84.9 million in January 2009 to around USD 40 million in July 2013, becoming less fragmented and consolidated, more focused and complementary to the WBG's lending and AAA program, with a largely satisfactory implementation track record. This is a result of the WBG's efforts towards a more programmatic approach to mobilizing TF resources and consolidating them in order to reduce fragmentation and administration costs. According to a CFPTO review of TF integration in CAS products as of January 2010, the Moldova CPS for FY09-12 has done well in linking TF outcomes to the country program, dramatically improving TF coverage by featuring many quantifiable outcomes and consolidating the overall portfolio.

2. **Trust Funds in the portfolio provide co-financing to IDA operations, finance carbon operations, and provide other forms of support, including for AAA.** The largest TFs in the current portfolio include: USD 11.4 million Public Administration Reform Multi-Donor TF (recently extended to December 31, 2013), USD 4.4 million Global Partnership for Education Grant for pre-primary education, and USD 4.4 million GEF co-financing for the IDA-financed Agriculture Competitiveness Project. The recently completed USD 16.6 million EC Regional Development and Social Protection Grant was the largest ever in Moldova's portfolio and was multidimensional, being complementary to several ongoing IDA-financed operations.

3. **The strong emphasis on partnerships with other development partners has proven effective in leveraging substantial co-financing for reforms.** The Rural Investment and Services Project and the Moldova Social Investment Fund attracted the support of other partners (DFID, EC, GEF, KFW, Netherlands, Sweden, Switzerland, UNICEF, and USAID), with additional financing of USD 24 million and USD 36.4 million, respectively. Development partners (DFID, the Netherlands, and Sweden) have looked to the World Bank to administer the Multi-Donor Trust Fund for Central Public Administration Reform and support to the Supreme Audit Institution. These partners have also provided USD 5.5 million to the ongoing Public Financial Management Project (USD 8.5 million IDA credit, recently extended to December 31, 2013).

4. Aside from being complementary to the lending portfolio, **TFs have been instrumental in strengthening the AAA program and building capacity.** Technical Assistance and sector work support have been provided in agriculture, education, e-transformation, financial and private sectors, and energy. On the latter, a vast array of trust-funded activities have provided support for district heating restructuring and will pave the way for the future district heating reform project planned for FY14. In the financial sector, a series of TFs have helped strengthen the institutional capacity of the National Commission of Financial Market and enhance the financial sector regulatory regime in accordance with international good practices. TFs have also provided continued assistance to the private sector in regulatory and business environment reform, increasing access to finance and implementing targeted activities to help improve Moldovan companies' competitiveness.

Since 1994, the GEF has invested about USD25 million in 15 national projects, nine of which were implemented by the World Bank. The Moldova GEF Country Portfolio Evaluation¹ (1994-2009) concluded that GEF support has been relevant to national priorities, international conventions, and the GEF mandate. The intervention on persistent organic pollutants was of strategic importance while GEF support to biodiversity was instrumental in supporting Moldova to meet its obligations. The evaluation found that the project preparation and approval process in Moldova has been relatively efficient compared to other countries. However, the evaluation also found that lack of coordination and of a clear strategy regarding GEF support impaired country ownership. The evaluation recommended that GEF introduce a Small Grants Program in Moldova and that GEF projects address land degradation and climate adaption issues.

The detailed list of main active TF products by CPS pillars and themes is provided below.

(Figures in thousands of USD)							
Trust Fund #	Trust Fund Name	Net Grant Amount	Program Source	Grant Closing Date	Project Name	Fund Usage	Exec. By
Pillar I. Increasing Competitiveness							
TF011492	Moldova Investment Climate Reform Project	1,556.0	IFC	12/31/2014		TA & Advisory Services	Bank
TF011523	Moldova: #10151 Improving Access to Credit through Secured Transactions Reform	280.7	FIRST	10/31/2013	Moldova #10151 Improv Access to Credit		Bank
TF012145	Moldova Agriculture Competitiveness Project	4,435.5	GEFIA	6/30/2017	AGRICULTURE COMPETITIVENESS PROJ. (GEF)		Recipient
TF014647	Resource Efficiency For SMEs	150.0	IFC	2/29/2016	REF for SMEs	TA & Advisory Services	Bank
Pillar II. Enhancing Human Capital and Minimizing Social Risks							
TF011810	Moldova - Global Partnership For Education Grant	4,400.0	EFAFTI	10/29/2014	EFA- FTI - 3		Recipient
TF014285	SSKE between Moldova and Romania: Sharing Experience on School Graduation Examinations	49.9	SOUTH	2/20/2014	EDUCATION REFORM		Bank
TF012263	IDF Grant for Strategic Planning of Health Information Management Reform Project	278.0	IDF	7/30/2015	IDF-HEALTH MIS	TA & Advisory Services	Recipient
TF093407	COMMUNITY PARTICIPATION IN POST-CONFLICT REGIONS	1,950.0	JSDF	9/17/2013	SIF 2	Projects w/o any Bank cof (eg: CDCF)	Recipient
TF098414	Moldova Food Security AAA	320.0	GFCRP	6/30/2014	MD Food Security Notes		Bank
Pillar III. Promoting a Green, Clean and Resilient Moldova							
TF093088	COMMUNITY SUPPORT PROGRAM FOR SUSTAINABLE AND INTEGRATED FOREST MANAGEMENT AND CARBON SEQUESTRATION THROUGH FORESTATIO N.	975.9	PHRD	4/2/2014	Moldova Community Forestry Project	TA & Advisory Services	Recipient
TF056111	CDCF - MOLDOVA BIOMASS HEATING ERPA	1,047.1	CARBON	7/15/2016	BIOMASS HEAT IN RUR COMM (CDCF)	Carbon Financing	Recipient
TF056815	BCF - MOLDOVA SOIL CONSERVATION ERPA	2,478.0	CARBON	12/31/2015	SOIL CONS. FOLLW UP	Carbon Financing	Recipient
TF094358	MOLDOVA COMMUNITY FORESTRY PROJECT	2,612.5	CARBON	12/31/2018	Moldova Community Forestry Project	Carbon Financing	Recipient
TF097543	GFDRR: Moldova Disaster and Climate Risk management Capacity Building	100.0	GFDRR	9/30/2014	DISASTER & CLIMATE RISK MGT	TA & Advisory Services	Bank
TF099088	MOLDOVA ESREI TF: SUPERVISION OF RECIPIENT ACTIVITIES	220.1	FS-7SD	6/25/2014	Moldova: Sida TF on Energy Reform and EE	TA & Advisory Services	Bank
TF099139	MOLDOVA ESREI TF COMPONENT 2 & 3: DH Investment Study and Energy Supply Optimization Strategy	2,273.0	FS-7SD	12/25/2014	Moldova: Sida TF on Energy Reform and EE	TA & Advisory Services	Recipient
TF099493	Moldova Soil Conservation Project	2,961.4	CARBON	12/31/2013	SOIL CONS. FOLLW UP	Carbon Financing	Recipient
TF099602	Biogas Generation from Animal Manure Pilot Project	980.0	GEFIA	6/30/2014	BIOGAS GENERATION FROM ANIMAL MANURE	TA & Advisory Services	Recipient
Governance as a cross-cutting theme							
TF056601	MDTF TECHNICAL ASSISTANCE SUPPORT TO PUBLIC ADMINISTRATION REFORM OF MOLDOVA	11,450.0	FS-7PE	12/31/2013	MDTF FOR PUBLIC ADMIN REFORM	TA & Advisory Services	Recipient
TF011685	MOLDOVA: Feasibility Study for Cloud-Based Shared Infrastructure PPP	200.0	PPIAF	11/30/2013	MOLDOVA eTRANSFORMATION	TA & Advisory Services	Bank
TF012004	Strengthening Public Procurement	493.0	IDF	6/27/2015	IDF-PUBLIC PROCUREMENT	TA & Advisory Services	Recipient
TF013177	Advice on Strengthening Public Investment Management in Moldova	200.0	EPFM	4/30/2014	Advice on Strengthening Public Invnt. Mgm	TA & Advisory Services	Bank
Total		39,411.0					

Annex 12: Country Financing Parameters Summary Table

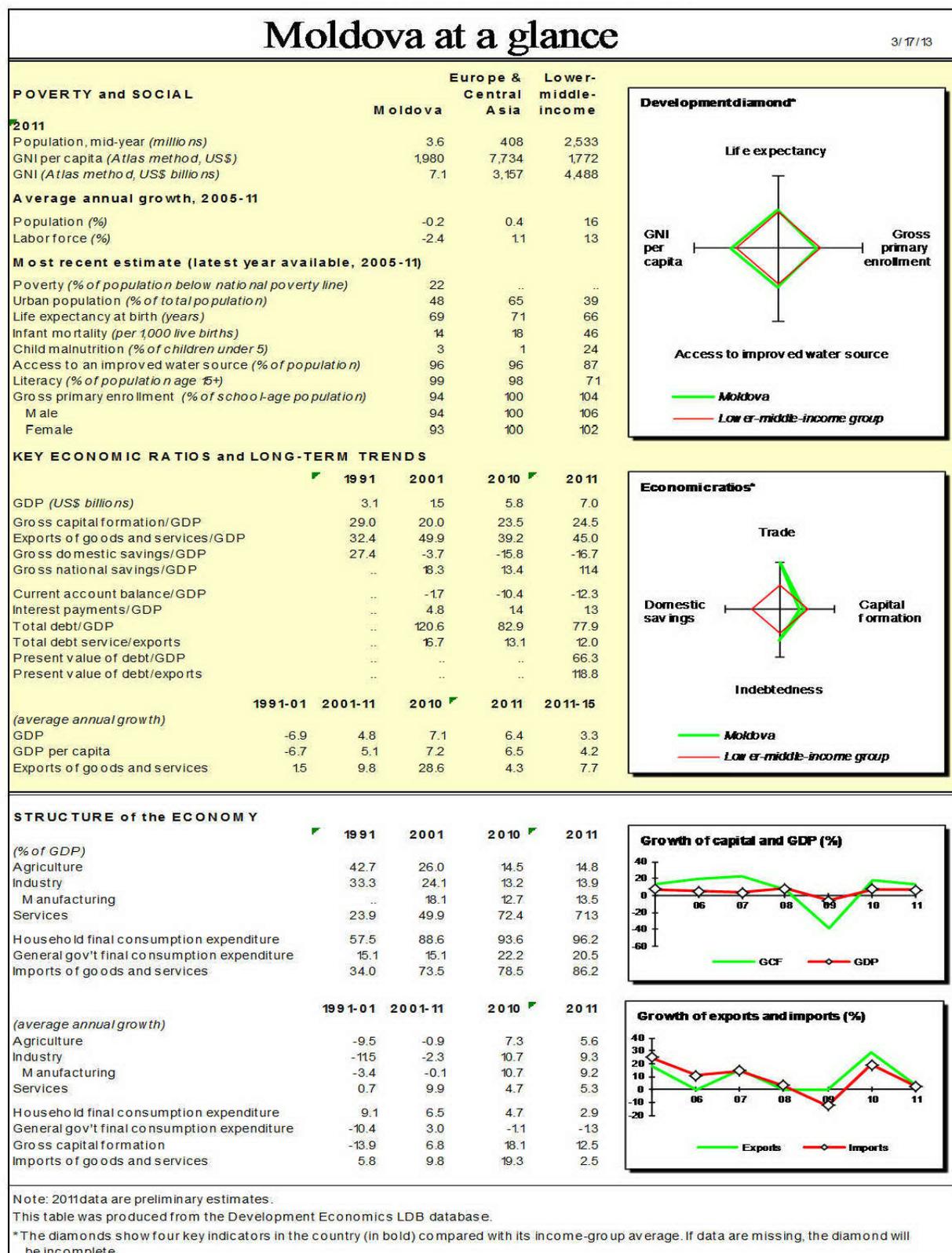
Date: January 28, 2005

The country financing parameters for Moldova set out below have been approved by the Regional Vice President, Europe and Central Asia, and are posted on the Bank's internal website.

Item	Parameter	Remarks/Explanation
Cost sharing: Limit on the proportion of individual project costs that the Bank may finance.	Up to 100 percent	Individual projects may be financed up to 100 percent. To assure ownership, appropriate level of cost sharing will still be encouraged, especially for projects with high TA and policy content, and by beneficiary communities in CDD projects.
Recurrent cost financing: Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country level limit on recurrent cost financing	The Bank would continue to monitor the overall fiscal and debt situation and its implications for recurrent cost financing. In determining Bank financing of recurrent costs in individual projects, the Bank would take into account sustainability issues at the sector and project level particularly the sustainability of project achievements, and implied future budgetary outlays.
Local cost financing: Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects?	Yes	The requirements for local cost financing are met. The Bank can finance local costs in any proportions required by individual projects.
Taxes and duties: Are there any taxes and duties that the Bank would not finance?	None	There are no unreasonable taxes and duties. The Bank may finance all taxes and duties associated with project expenditures. At the project- level, the Bank would consider whether taxes and duties constitute an excessively high share of projects costs.

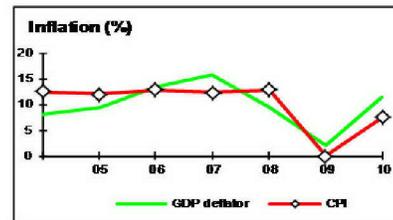
Annex 13: Standard CPS Annexes

Annex 1: A2 – Moldova at a Glance

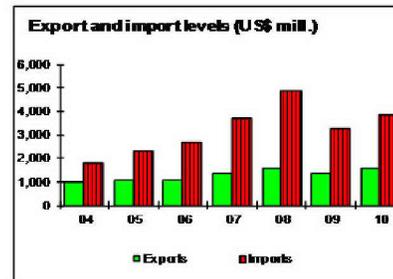


PRICES and GOVERNMENT FINANCE

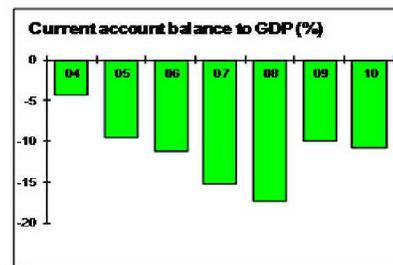
	1990	2000	2009	2010
Domestic prices (% change)				
Consumer prices	..	312	0.0	7.4
Implicit GDP deflator	13.5	27.3	2.2	11.2
Government finance (% of GDP, includes current grants)				
Current revenue	..	319	38.3	37.5
Current budget balance	..	-2.8	-2.0	1.4
Overall surplus/deficit	..	-2.6	-6.3	-2.5

**TRADE**

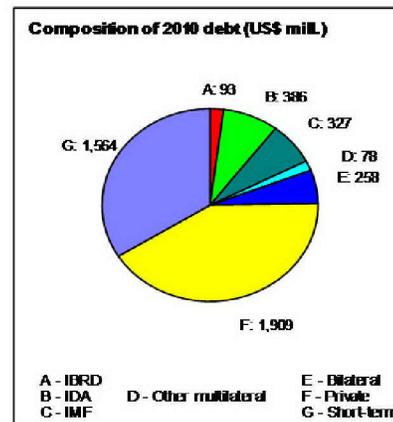
	1990	2000	2009	2010
TRADE (US\$ millions)				
Total exports (fob)	..	477	1329	1590
Live animals and animal products	..	23	..	29
Vegetable products	..	66	163	387
Manufactures	..	106	254	398
Total imports (cif)	..	793	3273	3,810
Food	..	26	290	455
Fuel and energy	..	192	718	791
Capital goods	..	97	770	805
Export price index (2000=100)	..	100	185	210
Import price index (2000=100)	..	100	173	193
Terms of trade (2000=100)	..	100	107	109

**BALANCE of PAYMENTS**

	1990	2000	2009	2010
BALANCE of PAYMENTS (US\$ millions)				
Exports of goods and services	..	641	1996	2,280
Imports of goods and services	..	972	3,989	4,580
Resource balance	..	-331	-1,993	-2,300
Net income	..	22	303	471
Net current transfers	..	211	1,511	1,198
Current account balance	..	-98	-539	-631
Financing items (net)	..	146	338	925
Changes in net reserves	..	-47	201	-294
Memo:				
Reserves including gold (US\$ millions)	..	218	2,348	2,754
Conversion rate (DEC, local/US\$)	3.58E-3	12.4	11.1	12.4

**EXTERNAL DEBT and RESOURCE FLOWS**

	1990	2000	2009	2010
EXTERNAL DEBT and RESOURCE FLOWS (US\$ millions)				
Total debt outstanding and disbursed	..	1690	3,557	4,615
IBRD	..	91	110	93
IDA	..	103	332	306
Total debt service	..	160	386	387
IBRD	..	16	21	19
IDA	..	1	6	7
Composition of net resource flows				
Official grants	0	37	182	241
Official creditors	..	25	-6	42
Private creditors	..	82	-25	19
Foreign direct investment (net inflows)	..	128	128	194
Portfolio equity (net inflows)	0	3	2	6
World Bank program				
Commitments	..	10	49	55
Disbursements	..	36	21	64
Principal repayments	..	5	21	22
Net flows	..	31	0	42
Interest payments	..	11	6	4
Net transfers	..	19	-6	38



Note: This table was produced from the Development Economics LDB database.

3/29/12

Annex 2: B2 – Selected Indicators of Bank Portfolio Performance and Management

As of 7/8/2013

Indicator	2010	2011	2012	2013
Portfolio Assessment				
Number of Projects Under Implementation ^a	13	11	11	9
Average Implementation Period (years) ^b	3.9	4.1	4.4	4.4
Percent of Problem Projects by Number ^{a, c}	15.4	9.1	18.2	22.2
Percent of Problem Projects by Amount ^{a, c}	7.3	16.6	8.7	11.3
Percent of Projects at Risk by Number ^{a, d}	15.4	9.1	18.2	22.2
Percent of Projects at Risk by Amount ^{a, d}	7.3	16.6	8.7	11.3
Disbursement Ratio (%) ^e	28.6	40.5	38.3	24.0
Portfolio Management				
CPPR during the year (yes/no)	no	no	yes	no
Supervision Resources (total US\$)	1320.2	1242.6	1189.6	960.2
Average Supervision (US\$/project)	101.6	88.8	99.1	68.6

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	27	3
Proj Eval by OED by Amt (US\$ millions)	492.6	34.0
% of OED Projects Rated U or HU by Number	15.4	0.0
% of OED Projects Rated U or HU by Amt	16.3	0.0

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

Annex 3: B3 – Summary of Indicative Lending Program

CPS FY14-17: World Bank Lending Scenarios					
	Project Name	IDA USD (m)	IBRD USD (m)	Total USD (m)	Comment
FY14					
P143283	Development Policy Operation (DPO)	30.0	-	30.0	USD25 million depending on IDA availability, macroeconomic environment and estimated impact of the reforms being implemented.
P132443	Moldova DH Efficiency Improvement	20.0		20.0	
P143870	Moldova DH Efficiency Improvement Guarantee	-	80.0	80.0	
P144892	Health Transformation	30.0	-	30.0	USD25 million depending on IDA availability.
	Subtotal FY14	80.0	80.0	160.0	
FY15					
tbd	DPO	30.0	-	30.0	USD25 million depending on macroeconomic environment and the estimated impact of the reforms being implemented.
tbd	Private Sector Development Project	15.0	30.0	45.0	
tbd	Public Administration Reforms Project	20.0	-	20.0	Efforts will be made to meet the Government's preference for a TF, but would still maintain at least a small IDA component, e.g. for advisory support and capacity building.
P127734	Strengthening PFM and Tax Administration	20.0		20.0	Provided issues under the current PFM project are resolved and timely delivery of the FMIS.
	Subtotal FY15	85.0	30.0	115.0	
FY16					
tbd	DPO	30.0	-	30.0	USD25 million depending on macroeconomic environment and the estimated impact of the reforms being implemented.
tbd	Lifeline Roads	-	30.0	30.0	
tbd	Forest and Sustainable Land Management	20.0	-	20.0	Additional funding to be sought with GEF, the Climate Investment Fund and the Green Climate Fund.
tbd	AF GeT/Competitiveness	-	10.0	10.0	
	Subtotal FY16	50.0	40.0	90.0	
FY17					
tbd	DPO	-	30.0	30.0	USD25 million depending on macroeconomic environment and the estimated impact of the reforms being implemented.
tbd	Adaptation and Resilience to Climate change	20.0	-	20.0	Additional funding to be sought with GEF, the Climate Investment Fund and the Green Climate Fund.
tbd	AF Agriculture Competitiveness	-	20.0	20.0	
P127388	AF Moldova Education Reform Project	15.0	-	15.0	
	Subtotal FY17	35.0	50.0	85.0	
Total FY14-17		250.0	200.0	450.0	
	FY14	80.0	80.0	160.0	
	FY15-17	170.0	120.0	290.0	

Annex 4: B4 – Summary of Proposed AAA

CPS FY14-17: Analytical and Advisory Activities (New or Programmatic)

FY14

P143613 Programmatic HD TA
P132229 Financial Sector Monitoring
tbd Programmatic SD AAA
tbd Trade Study (programmatic)
P146628 Programmatic Public Expenditure Review
tbd Transnistria Economic and Social Notes

FY15

P143613 Programmatic HD TA
P132229 Financial Sector Monitoring
tbd Poverty Assessment
tbd Programmatic SD AAA
P146476 Forest Policy Sector Note
tbd Energy Sector Note
tbd Broadband Access Policy Notes
P146628 Programmatic Public Expenditure Review

FY16

P143613 Programmatic HD TA
P132229 Financial Sector Monitoring/PSD
tbd Programmatic SD AAA
tbd Assessment of Climate Change Adaptive Capacity
tbd Economic Geography
P146628 Programmatic Public Expenditure Review

FY17

P143613 Programmatic HD TA
P132229 Financial Sector Monitoring/PSD
tbd Programmatic SD AAA
tbd Aging Study
tbd Jobs
P146628 Programmatic Public Expenditure Review

AAA: Ongoing (as of July 1, 2013)

P131020 IDF Health (TF012263)
P129112 IDF Public Procurement
P132485 Land Governance Assessment Framework TF Supervision
P145214 Social Accountability in Forestry
tbd Forest Law Enforcement and Governance Phase II (Regional)
P133467 Strengthening Audit and Reporting in Eastern Partnership Countries
P130304 Strengthening Public Investment Management (TF013177)
tbd District Heating Reforms (TF099088)
tbd Statistical Capacity Building (TF)
tbd Open Data Readiness (TF)

Annex 5: B5 – Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2005-11	Europe & Central Asia	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	3.6	3.7	3.6	408.1	2,532.7
Growth rate (% annual average for period)	1.0	-0.1	-0.2	0.4	1.5
Urban population (% of population)	44.2	46.3	47.7	64.7	38.7
Total fertility rate (births per woman)	2.6	1.9	1.5	1.8	2.9
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	21.9		
Urban headcount index	..	..	10.4		
Rural headcount index	..	..	30.3		
INCOME					
GNI per capita (US\$)	..	470	1,980	7,734	1,772
Consumer price index (2005=100)	..	23	165	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	34.3	33.0		
Low est quintile (% of income or consumption)	..	6.9	7.8		
Highest quintile (% of income or consumption)	..	41.4	41.2		
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	5.8	5.2	3.9	1.7
Education (% of GDP)	..	..	8.6	4.5	4.4
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	..	88	93	87
Male	..	..	88	94	88
Female	..	..	87	93	86
Access to an improved water source					
<i>(% of population)</i>					
Total	..	93	96	96	87
Urban	..	98	99	99	93
Rural	..	88	93	91	84
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	91	91	94	78
DPT	..	96	93	92	73
Child malnutrition (% under 5 years)	..	..	3	1	24
Life expectancy at birth					
<i>(years)</i>					
Total	66	67	69	71	66
Male	63	63	66	67	64
Female	69	71	73	75	68
Mortality					
Infant (per 1,000 live births)	34	24	14	18	46
Under 5 (per 1,000)	42	29	16	21	62
Adult (15-59)					
Male (per 1,000 population)	289	269	300	269	240
Female (per 1,000 population)	173	146	145	114	170
Maternal (modeled, per 100,000 live births)	..	60	41	32	260
Births attended by skilled health staff (%)	..	100	100	98	57

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 17 April 2013.

Annex 6: B6- Key Economic Indicators

Indicator	Actual			Estimated			Projected		
	2008	2009	2010	2011	2012	2013	2014	2015	2016
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	11	10	14	15	13	16	16	16	16
Industry	14	13	13	17	17	17	17	17	17
Services	75	77	72	68	70	68	68	67	67
Total Consumption	114	113	116	115	117	117	117	117	117
Gross domestic fixed investment	34	23	23	23	23	24	24	23	23
Government investment	2	4	1	1	2	2	2	3	3
Private investment	32	19	22	22	21	21	21	21	20
Exports (GNFS) ^b	41	37	39	45	44	44	42	42	42
Imports (GNFS)	94	73	79	86	84	84	83	83	82
Gross domestic savings	-14	-13	-16	-15	-17	-17	-17	-17	-17
Gross national savings ^c	22	13	13	15	16	17	16	15	15
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	6055	5438	5813	7016	7253	7763	8352	9083	10007
GNI per capita (US\$, Atlas method)	1500	1570	1820	1980	2070	2260	2458	2655	2894
Real annual growth rates (% , calculated from 96 prices)									
Gross domestic product at market prices	7.8	-6.0	7.1	6.4	-0.8	4.5	4.0	4.0	4.5
Gross Domestic Income	2.9	-4.9	6.1	1.6	-2.0	4.0	2.9	3.6	4.3
Real annual per capita growth rates (% , calculated from 96 prices)									
Gross domestic product at market prices	7.9	-5.9	13.8	6.5	-0.8	4.6	4.1	4.1	4.6
Total consumption	5.7	-6.9	7.3	7.3	0.9	4.8	4.9	4.3	4.8
Private consumption	5.9	-8.1	9.2	9.4	1.0	4.6	4.9	4.3	4.8
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	2483	2000	2292	3146	3164	3387	3544	3818	4154
Merchandise FOB	1646	1327	1590	2277	2228	2413	2495	2680	2916
Imports (GNFS) ^b	5708	3989	4580	6041	6110	6535	6971	7524	8197
Merchandise FOB	4869	3276	3810	5147	5152	5519	5891	6361	6931
Resource balance	-3225	-1989	-2288	-2896	-2946	-3148	-3427	-3706	-4043
Net current transfers	1577	1151	1198	1521	1605	1690	1776	1855	1935
Current account balance	-1049	-534	-620	-806	-511	-544	-662	-726	-816
Net private foreign direct investment	697	139	194	253	139	163	204	228	285
Long-term loans (net)	388	-31	287	194	238	298	422	240	406
Official	8	-7	168	35	95	113	210	326	333
Private	380	-25	119	160	143	185	212	-86	72
Other capital (net, incl. errors & omissions)	417	227	433	636	631	237	316	323	339
Change in reserves ^d	-452	201	-294	-278	-498	-154	-281	-65	-214
<i>Memorandum items</i>									
Resource balance (% of GDP)	-53.3	-36.6	-39.4	-41.3	-40.6	-40.5	-41.0	-40.8	-40.4
Real annual growth rates (YR96 prices)									
Merchandise exports (FOB)	-1.6	-3.2	5.2	17.0	2.1	8.0	4.7	4.6	4.8
Primary	-3.5	21.0	-2.5	9.8	-3.9	11.4	6.2	5.9	5.9
Manufactures	22.6	-54.9	55.5	69.8	7.8	0.9	1.2	1.5	2.2
Merchandise imports (CIF)	20.3	-32.3	4.6	30.3	-1.8	6.9	5.7	4.8	5.0

Moldova - Key Economic Indicators

(Continued)

Indicator	Actual					Projected			
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public finance (as % of GDP at market prices)^e									
Current revenues	40.0	38.3	37.5	35.8	37.3	37.7	37.6	37.6	37.7
Current expenditures	34.5	40.3	36.1	33.9	34.1	34.0	33.9	33.3	32.8
Current account surplus (+) or deficit (-)	5.5	-2.0	1.3	1.9	3.2	3.7	3.7	4.2	4.9
Capital expenditure	7.1	4.9	4.6	5.1	6.2	6.2	5.9	6.2	6.4
Foreign financing	0.1	3.7	2.9	0.7	2.2	2.3	3.4	4.4	4.0
Monetary indicators									
M2/GDP	50.4	34.7	34.5	34.3	39.7	45.1	49.5	51.0	52.0
Growth of M2 (%)	15.9	-33.9	18.3	14.1	23.5	25.0	20.0	12.7	11.9
Private sector credit growth / total credit growth (%)	119.3	-364	140.0	68.3	145.0	63.2	80.0	78.4	73.4
Price indices(YR96 =100)									
Merchandise export price index	150.5	129.4	147.1	180.5	167.5	173.2	171.0	175.7	182.3
Merchandise import price index	362.4	357.5	397.8	416.1	425.7	421.6	425.8	438.6	455.2
Merchandise terms of trade index	41.5	36.2	37.0	43.4	39.3	41.1	40.2	40.0	40.1
Real exchange rate (US\$/LCU) ^f	146.5	122.8	129.3	127.8	126.2	126.1	127.7	131.0	135.4
Real interest rates									
Consumer price index (% change)	12.7	0.0	7.4	7.6	4.6	4.7	5.1	4.8	4.7
GDP deflator (% change)	9.3	2.2	11.1	7.7	7.5	5.3	5.3	5.1	5.0

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex 7: B7 - Key Exposure Indicators

Indicator	Actual				Actual			Projected	
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total debt outstanding and disbursed (TDO) (US\$m) ^a	3787	3457	4030	5240	6004	6295	6727	6965	7375
Net disbursements (US\$m) ^a	399	-46	377	771	820	503	739	543	712
Total debt service (TDS) (US\$m) ^a	481	387	346	456	601	693	779	754	541
Debt and debt service indicators (%)									
TDO/XGS ^b	85.4	107.2	109.9	109.7	120.6	117.7	118.6	113.6	110.9
TDO/GDP	62.5	63.6	69.3	74.7	82.8	81.1	80.6	76.7	73.7
TDS/XGS	10.8	12.0	9.4	9.6	12.1	13.0	13.7	12.3	8.1
Concessional/TDO	8.2	9.6	9.6	8.3	8.5	0.0	0.0	0.0	0.0
IBRD exposure indicators (%)									
IBRD DS/public DS	28.2	23.7	28.9	23.1	24.6	27.1	38.2	14.9	4.0
Preferred creditor DS/public DS (%) ^c	70.5	53.1	56.8	45.8	60.6	66.3	72.4	89.1	91.1
IBRD DS/XGS	0.5	0.7	0.5	0.4	0.4	0.3	0.2	0.2	0.2
IBRD TDO (US\$m) ^d	129	110	93	75	55	45	94	84	87
Of which present value of guarantees (US\$m)	0	0	0	0	0	0	66.5	67.8	69.3
Share of IBRD portfolio (%)	0.5	0.7	0.5	0.4	0.4	0.4	0.3	0.2	0.1
IDA TDO (US\$m) ^d	312	332	386	433	508	628	742	834	911
IFC (US\$m) ^f									
Loans	18.2	11.4	13.6	30.2	73.0	95.2	110.0	120.0	130.0
Equity and quasi-equity ^e	6.6	4.1	3.0	3.00	2.5	2.5	4.0	5.0	6.0
MIGA									
MIGA guarantees (US\$m)	61	69	75	70	73	16	15	15	10

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

f. FY08-FY13 Actual, FY14-FY16 Projected

Annex 6: B8 – IFC Statement of Committed and Outstanding Investment Portfolio

As of 6/30/2013

In USD Millions

<u>FY Approval</u>	<u>Company</u>	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>
2008/13	Bostavan	0	1.1	0	0	0	0	0.9	0	0	0
2011	Chisinau	9.3	0	0	0	0	6.0	0	0	0	0
0	Energo continent	0	0	3	0	0	0	0	0	0	0
2011	Eximbank moldova	17.3	0	0	0	0	17.3	0	0	0	0
2012	Gc prim	3	0	7	0	0	3	0	7	0	0
2010	Maib	8.6	0	0	0	0	8.6	0	0	0	0
1999/00/01	Orange moldova	0	0	1.6	0	0	0	0	1.6	0	0
2009	Pc bank moldova	1.7	0	0	0	0	1.7	0	0	0	0
2013	Transoil	30	0	0	0	20	30	0	0	0	20
2010	Uf moldova	12.2	0	0	0	0	12.2	0	0	0	0
Total Portfolio:		82.1	1.1	11.6	0	20	78.8	0.9	8.6	0	20

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

Annex 7: B8 – Operations Portfolio (IBRD/IDA and Grants)

As of 7/8/2013

Closed Projects 39

IBRD/IDA *

Total Disbursed (Active)	71.0
of which has been repaid	0.0
Total Disbursed (Closed)	347.7
of which has been repaid	192.8
Total Disbursed (Active + Closed)	418.7
of which has been repaid	192.8
Total Undisbursed (Active)	119.8
Total Undisbursed (Closed)	0.3
Total Undisbursed (Active + Closed)	120.1

Active Projects

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements ^{ad}			
		Supervision Rating			IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm	Rev'd
		Development Objectives	Implementation Progress									
P118518	AG COMP	S	S	2012		18				17.4	0.8	
P127125	AGRICULTURE COMPETITIVENESS PROJ. (GEF)	S	S	2012			4.4			4.3	0.9	
P115634	DISASTER & CLIMATE RISK MGT	MS	MS	2011		10				5.1	2.3	
P127388	EDUCATION REFORM	S	S	2013		40				40.0	0.0	
P143202	EMERGENCY AG SUPPORT	#	#	2013		10				9.7		
P095250	HEALTH SERVICES AND SOCIAL ASSISTANCE	MS	S	2007		27.2				5.6	-4.9	5.1
P121231	MOLDOVA eTRANSFORMATION	S	MS	2011		20				15.0	6.3	
P107612	NATIONAL WATER SUPPLY & SANITATION	MS	MS	2008		14				2.4	3.1	3.1
P082916	PUB FIN MGMT TA	U	U	2005		8.5		0.6		6.7	7.3	7.3
P090340	QUAL EDUC IN RUR AREAS OF MD	MU	S	2006		11				0.4	-1.8	0.1
P120913	Strengthen SSN - Results	MS	MS	2011		37				17.5	1.2	
Overall Result						195.7	4.4	0.6		124.1	15.1	15.7



MOLDOVA

- SELECTED CITIES AND TOWNS
- ⊙ AUTONOMOUS TERRITORIAL UNIT CAPITALS
- ⊙ RAIONS OR MUNICIPALITIES CAPITALS*
- ★ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- - - AUTONOMOUS TERRITORIAL UNIT BOUNDARIES
- RAIONS OR MUNICIPALITIES BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

*Names of the raions or municipalities are identical to their capitals.