Report Number : ICRR0021428

## 1. Project Data

**Country**
Moldova

**Practice Area(Lead)**
Macroeconomics, Trade and Investment

**Programmatic DPL**
**Planned Operations:** 2 **Approved Operations:** 2

**Operation ID**
P143283

**Operation Name**
Development Policy Operation

**L/C/TF Number(s)**
IBRD-83660,IDA-54390

**Closing Date (Original)**
31-Oct-2014

**Total Financing (USD)**
30,230,753.00

**Bank Approval Date**
28-Mar-2014

**Closing Date (Actual)**
31-Oct-2014

| | IBRD/IDA (USD) | Co-financing (USD) |
|---|---|---|
| Original Commitment | 30,000,000.00 | 0.00 |
| Revised Commitment | 30,000,000.00 | 0.00 |
| Actual | 30,230,753.00 | 0.00 |

| Prepared by | Reviewed by | ICR Review Coordinator | Group |
|---|---|---|---|
| Ranga Rajan Krishnamani | Robert Mark Lacey | Malathi S. Jayawickrama | IEGEC (Unit 1) |

**Operation ID**
P149555

**Operation Name**
Second Development Policy Operation ( P149555 )

| **L/C/TF Number(s)** | **Closing Date (Original)** | **Total Financing (USD)** |
|---|---|---|
| IBRD-83660,IBRD-86740,IDA-54390,IDA-59280,IDA-59290 | 30-Sep-2017 | 44,615,970.00 |
| **Bank Approval Date** | **Closing Date (Actual)** | |
| 16-Dec-2016 | 30-Sep-2017 | |

| | **IBRD/IDA (USD)** | **Co-financing (USD)** |
|---|---|---|
| Original Commitment | 45,000,000.00 | 0.00 |
| Revised Commitment | 45,000,000.00 | 0.00 |
| Actual | 44,615,970.00 | 0.00 |

## 2. Program Objectives and Policy Areas

### a. Objectives

This series consisted of two development policy operations (DPO1 and DPO2). The program development objectives (PDOs) as stated in the Program Documents for DPO 1 and 2 (summary page i).

1. Strengthen the regulatory framework to improve predictability of the business environment, facilitate competition and reduce regulatory compliance costs.

2. Strengthen financial sector stability, promote transparency of shareholding and ease conditions for access to finance.

3. Improve the public investment management framework, make investment subsidies in agriculture more efficient and equitable, and improve the coverage of well-targeted social assistance programs.

The PDOs were not revised. The PDOs are also the pillars (see below).

### b. Pillars/Policy Areas

The series had three pillars as stated in Program Documents for DPO 1 and 2 (summary page i).

**Pillar A. Strengthen the regulatory framework to improve predictability of the business environment, facilitate competition and reduce regulatory compliance costs.** This pillar aimed to: (i) reduce the cost of complying with regulations through Risk-Based Inspection (RBI) by state inspectorates, including customs and the administration of business taxes: (ii) promote transparency related to the advantages granted by the government to enterprises in the form of state aid (such as subsidies, tax deductions and exemptions), and (iii) provide farmers with faster access to advanced technologies through reducing the testing and registration period for new plant varieties.

**Pillar B. Strengthen financial sector stability, promote transparency of shareholding and ease conditions for access to finance**. This pillar addressed three financial sector issues: (1) strengthening the governance and enforcement powers of the regulatory agencies in the financial sector; (2) improving the transparency and enforcement of shareholders' property rights; and (3) enhancing access to finance for Small and Medium Enterprises (SMEs) from the banking system through using moveable assets as collateral.

**Pillar C. Improve the public investment management framework, make investment subsidies in agriculture more efficient and equitable, and improve the coverage of well-targeted social assistance programs.** This pillar aimed to improve the efficiency and effectiveness of public expenditure in the three areas mentioned.

There were no changes in the pillars. There were nine prior actions for DPO1 and eleven for DPO2.

### c. Comments on Program Cost, Financing, and Dates

DPO1 was financed by an IBRD loan of US$9 million and an IDA Credit of US$21 million (total US$30 million). The operation was approved by the Board on March 28, 2014 and closed as scheduled on June 30, 2014. US$30.23 million was disbursed.

DPO2 was financed by an IBRD loan of US$27.20 million and an IDA Credit of US$17.80 million (total US$45 million). A crisis in the financial sector and political turmoil in the wake of parliamentary elections (see Section 4 below), delayed the preparation of DPO2. After substantial design modifications pertaining to the financial sector, DPO2 was approved on December 16, 2016 and closed in accordance with the revised schedule on September 30, 2017. US$44.62 million was disbursed.

## 3. Relevance of Objectives & Design

### a. Relevance of Objectives

The program objectives were relevant to country conditions at appraisal and completion. Economic challenges facing Moldova at the time of preparation, included major governance issues in the financial sector, disproportionately high incidence of poverty in the agricultural sector, high transaction costs for businesses and issues associated with public expenditure effectiveness. The program's objectives continued to be relevant at closure.

They were also relevant to the government's National Development Strategy (NDS) "*Moldova 2020*", covering the 2012-2020 period. This calls for a shift in the sources of growth from consumption towards investment, higher productivity, enhanced competitiveness, and higher exports. The objectives were well-aligned with three of the seven national development strategy priorities: increasing competition in the financial sector, developing risk management tools, and improving the business climate. The NDS also identified the importance of increasing public expenditure efficiency. The program objectives are relevant to the country priorities at the time of appraisal and completion.

The objectives were relevant to two pillars of the World Bank Group's Country Partnership Strategy (CPS) for 2014-2017 - improving competitiveness and minimizing social risks through strengthening the efficiency of the social assistance system. The cross-cutting governance theme of the CPS underscored the importance of addressing financial sector issues and making public expenditure more efficient and equitable. The objectives remain pertinent to two of the three pillars of the Country Partnership Framework (CPF) for 2018-2021: (i) strengthening the rule of law and accountability in economic institutions; and (ii) improving efficiency, quality and inclusive access to public services.

**Rating**
High

### b. Relevance of Design

There is a logical causal relationship between the prior actions and the intended achievement of objectives for the most part. Reducing cumbersome regulatory requirements, publicly reporting the benefits provided by the government as state aid and reducing the registration period for new plant varieties are relevant for strengthening the regulatory framework and enhancing competition. A more secure and effective registry of securities and addressing banking sector supervisory shortcomings are pertinent to strengthening financial sector stability and promoting transparency of shareholding. Strengthening the framework for public investment management, refocusing agricultural sector subsidies, and increasing the scope of social safety programs are relevant for the attainment of better managed and more effective public expenditure programs.

However, design could have taken greater account of Moldova's limited implementation and coordination capacity. The program was spread over six distinct policy areas - regulatory reforms, financial sector governance and stability, easing conditions for access to finance from the banking system, improving public investment management, refocusing agricultural subsidies, and improving the effectiveness and efficiency of social safety programs. A more focused, limited program would have imposed fewer demands on constrained coordination and implementation capacity. It is not clear if political economy considerations were adequately considered at the design stage. Given the dimensions of the challenges in the financial sector, addressing them through a separate, dedicated operation or series, could have been given more consideration.

Moreover, it is not clear in every case why particular policy measures were chosen as prior actions rather than others, and in some instances, whether the actions would be strong enough to achieve the objectives. Measures to enhance competition were especially weak, being confined to public reporting of advantages provided by the government. The requirement that the accounts of relevant public institutions be placed with financially solid commercial banks was only marginally related to the program objective of strengthening financial sector stability. There was little evidence in Moldova that facilitating the use of moveable assets as collateral, would address commercial banks' reluctance to accept such assets as security when lending to SMEs. The pursuit of greater equity by reducing subsidies to corporate farms while increasing them to individual farmers, might conflict with the goal of enhanced agricultural efficiency, since small farms may be less efficient than large ones.

Moldova's macroeconomic framework at the time of the preparation of DPO1 was generally satisfactory. Economic growth exceeded five percent between 2010-2013, contributing to improved revenue collection and a lower fiscal deficit (less than 3 percent of GDP in 2013 compared to over 6 percent in 2009). The exchange rate was flexible, and the monetary policy stance was based on inflation targeting. External debt had stabilized, and foreign exchange reserves had risen to more than five months of future imports in 2013. However, the banking system remained vulnerable to governance-related shocks. Such shocks, including a major fraud (see Section 4 below), played a part in a deteriorating macroeconomic environment at the time of the delayed preparation of DPO2, along with lower remittances, weaker exports, and a series of summer droughts. The economy contracted by 0.4 percent in 2015. There was no IMF program in place. Although economic growth recovered to 4.5 percent in 2016, private investment remained weak due to lack of confidence in the banking system and tighter monetary conditions.

**Rating**
Modest

## 4. Achievement of Objectives (Efficacy)

### Objective 1
**Objective**

Strengthen the regulatory framework to improve predictability of the business environment, facilitate competition and reduce regulatory compliance costs.

**Rationale**
**Sub-objective 1. Strengthen the regulatory framework to improve predictability of the business environment**. The series attempted to address unclear and copious regulatory requirements that raised the cost of doing business. Prior actions included establishing sector Risk-Based Inspection methodologies for inspection of firms by state inspectorates, the creation of an online Registry of State Inspectors, legislative

amendments to ensure that adoption of new customs, tax-related, and regulatory legislation that affected businesses be preceded by a Regulatory Impact Analysis or RIA (all DPO1) and approval of legislation to decrease the number of state inspection agencies from 33 to 13 ( DPO2).

There were two outcome targets. First, inspection coverage of enterprises was to be reduced, originally by 80 percent in 2013, subsequently revised to 50 percent in 2017 for DPO2. Achievement of inspection coverage is recorded as 30 percent in 2017, falling short of both targets. Moreover, it is unclear whether the inspections referred to the share of firms that had at least one inspection, or the average number of inspections reported by firms, or the number of firms visited by state inspectors. This indicator could not be measured at closure, since the documentation of definitions and calculations had been lost, and there was no attempt to recalculate them. The second outcome target was the share of new legislation and regulations subject to an RIA, which was set at 100 percent in 2015 and revised to 80 percent in 2017 for DPO2. Actual achievement at closure was 60 percent (although Customs did achieve 100 percent coverage).

**Sub-objective 2. Facilitate competition.** The policy reforms aimed to facilitate competition by reducing state aid for businesses, which frequently tilted the playing field. Enabling regulations for the Law on State Aid were issued (prior action, DPO1). A decree established an institutional mechanism for collecting information on all state aid, through connection of all providers of such aid to an automated information system (prior action, DPO2). The government had previously created an inventory of mandated state aid providers and restricted the number of such providers to 183.

The outcome target was to have 100 percent of providers connected to, and reporting on, the system in 2017. 100 percent connection was achieved, but reporting through the system was 88 percent, the shortfall being due to inadequate computer skills. According to the task team, 100 percent reporting was achieved in 2018. However, it is difficult to see how achievement of this target facilitated competition. The program, moreover, did not cover selective tax exemptions, which are under-reported by the Ministry of Finance, and are a powerful instrument of selective state aid to the private sector.

**Sub-objective 3. Reduce regulatory compliance costs.** Reforms aimed at reducing these costs in the agricultural sector, with a view to encouraging the cultivation of new (to Moldova) plant varieties.

The government reduced the testing and registration period for new plant varieties to one year for all annual crops and one harvest period for multi-annual (fruit tree) crops listed in the EU Catalog (prior action, DPO1). The outcome target was to increase the number of new registered varieties of seeds and seedlings from 145 in 2013 to 160 in 2015; this was subsequently revised to 210 in 2017. Achievement in 2017 was 198; according to the ICR (page 5), the shortfall being due to the exclusion by the government of varieties that showed inferior results in Moldova.

In summary, the targets pertaining to strengthening the regulatory environment were not met; the target related to facilitating competition was met, though its relevance to the objective is questionable; and measures to reduce regulatory compliance in the agricultural sector appear to have contributed to a virtual attainment of the intended number of new registered varieties of seeds and seedlings. The ICR (page 28) also provides supplementary evidence on achievement of Objective 1 drawn from the World Economic

Forum's Global Competitiveness Report. On the burden of government regulation and the extent of market dominance, Moldova's scores remained unchanged between 2014 and 2017 at 2.8 and 3.0 respectively (on a scale of one to seven). The score for enhanced competition improved only marginally from 4.2 in 2013-2014 to 4.3 in 2017-2018. Efficacy of this objective is rated modest.

**Rating**
Modest

## Objective 2

**Objective**

Strengthen financial sector stability, promote transparency of shareholding and ease conditions for access to finance

**Rationale**

**Sub-objective 1. Strengthen financial sector stability.** The series aimed to address three banking sector issues: (i) constraints on the two regulatory agencies, the National Bank of Moldova (NBM) and the National Commission on Financial Markets (NCFM); (ii) consequent weak financial sector governance; and (iii) poor quality of assets and under-capitalization. A prior action for DPO1 was the initiation of a forensic audit of an important state-owned bank, which typified sector-wide problems. Further measures were intended under DPO2. However, that operation was delayed by a major bank fraud, which came to light in late 2014, and which also led all external partners to suspend budget support. DPO2 preparation resumed in February 2015, after the Prime Minister had agreed to take crucial measures to resolve the banking crisis. Several of these were DPO2 prior actions: (i) amendments to NBM's statutes by vesting it with enhanced regulatory and supervisory powers, providing individual regulators with legal protection from lawsuits, and removing the Ministry of Justice's power to amend NBM's regulatory and supervisory decisions; (ii) initiating liquidation proceedings of the three banks involved in the fraud; and (iii) launching special audits of three other large banks. The main governmental action – a large bailout of individual banks accompanied by (still ongoing) investigations into wrong-doing – was not supported by the series.

There were two outcome targets, one fully and the other partially met. The licenses of the three fraudulent banks were withdrawn. Time-bound action plans, prepared by the auditors and based on audit recommendations, were completed for two out of the three audited banks. However, the third cancelled the contract with the auditing company and developed and implemented its own (less rigorous) plan. Neither the prior actions, nor the governmental bailout, have significantly restored financial sector stability. On the contrary, according to World Economic Forum data, confidence in banks has declined markedly since 2013, reaching its nadir in 2018.

**Sub-objective 2. Promoting transparency of shareholding.** The policy reforms in this area aimed at addressing deficiencies in the current securities registration system that violated shareholders' rights and contributed to hostile takeover of companies (such as the non-transparent acquisition and ownership of financial institutions).

The government completed the draft law for consolidating the share registry function of corporate securities and merging it into a single depository within NBM (prior action, DPO1). NBM's statutes were amended to permit this, and the previously separate depositories of NBM and NCFM were consolidated into a single one within NBM (prior actions, DPO2). The Ministry of Justice's authority to act as a corporate securities depository for non-banking companies was abolished. The expected result of these policy actions - the transfer of securities to the new corporate securities depository by March 2018 - was not achieved. This was partly due to lack of consensus on the consolidation and transfer to NBM. The transfer was postponed to the Spring of 2019. Additional information provided by the task team indicates that the securities have not yet been transferred.

**Sub-objective 3. Easing conditions for access to financing**. The reforms aimed at increasing the access to finance for Small and Medium Size enterprises from the banking system, through facilitating the use of moveable assets as collateral.

The Pledge Law was amended in 2014 to facilitate the use of moveable assets as collateral (prior action, DPO1), by expanding the types of eligible moveable capital, creating an out-of-court settlement mechanism to facilitate rapid resolution in case of default, and establishing a notification registry to ensure transparency.

The targeted 37 percent increase in the share of loans secured by moveable collateral was not reached. The share actually decreased to 27.5 percent in June 2018, from the baseline of 33 percent in 2013.

In summary, confidence in the banking system was lower at series closure than at the outset. Transparency of shareholding had not been achieved. Enabling the use of moveable assets as collateral had no effect on SME access to finance. Efficacy of the second objective is rated negligible.

### Rating
Negligible

## Objective 3
### Objective

Improve the public investment management framework, make investment subsidies in agriculture more efficient and equitable, and improve the coverage of well-targeted social assistance programs.

### Rationale

**Sub-objective 1. Improve the public investment management framework**. Inefficiencies had reduced the effectiveness of public spending for national strategic objectives. The DPO series attempted to address this through investment management reforms.

The government established a new mechanism for planning, selecting, appraising, implementing and monitoring public investment projects. It also amended the Public Finance Law to reduce the list of exemptions to the new rules to projects regulated by separate laws or international agreements (both prior actions, DPO1).

All new eligible projects included in the 2017 Central Government Budget complied with the new legislation, thereby meeting the outcome target. The share of multi-year investment projects with non-continuous financing fell from a 33 percent average between 2006-2013 to 11 percent in 2017, exceeding the outcome target of 20 percent.

**Sub-objective 2. Make investment subsidies in agriculture more efficient and equitable**. To target subsidies more effectively, the series supported narrowing the scope of the agricultural machinery program, which accounted for half the agricultural subsidy fund.

In 2016, the government focused the program on high value products and capped the subsidy an individual producer could receive (prior actions, DPO2). The share of subsidies going to "high value agriculture" increased from 38.6 percent in 2013 to 56.5 percent in 2017, almost meeting the outcome target of 58 percent. The share of subsidies allocated to individual, rather than corporate, producers rose from 24.4 percent in 2013 to 29 percent in 2017, again slightly short of the 30 percent target. While the greater equity objective has been virtually achieved, that of efficiency is less clear. There is little evidence to show that individual farmers are more efficient than corporate ones. It is not obvious that the removal of several items from the list of farming machinery eligible for subsidies would stimulate innovation. There is also a lack of documentation about "high value-added production" and of clarity as to whether this means higher prices or profit margins.

**Sub-objective 3. Improve the coverage of well-targeted social assistance programs.** The policy reforms in this area aimed at better targeting of the social safety programs to the poor and reducing spending leakages.

The eligibility threshold of the cash transfer and heating allowance programs was to be revised annually, through amendments to the Budget Laws of 2013 (prior action, DPO1) and 2015 (prior action, DPO2). As a result, 125,189 people (including 71,286 women) received cash transfer benefits in 2017, compared to 23,339 in 2013, slightly short of the 126,000 (74,000 women) outcome target. 268,884 beneficiaries (including 69,285 women) received heating allowances in 2017 compared to 30,249 in 2013, exceeding the target of 126,000 beneficiaries (63,000 women). However, little information is provided on improved targeting.

In summary, the public investment sub-objective was met, although there is a question about sustainability, since the measures appear to depend on annual amendments to the Budget Law. The series also resulted in higher coverage of social assistance programs, though there is little evidence of better targeting. Agricultural subsidies are more equitably distributed, but it is less clear whether they contribute to enhanced efficiency. On balance, the rating for this objective is substantial.

**Rating**
Substantial

## 5. Outcome

The relevance of the program's objectives is rated high, but that of design modest. The program covered a wide area of reforms in six separate areas. In several instances, it was unclear whether the actions would be strong enough to achieve the objectives. Efficacy of the first objective - improving the business environment, facilitating competition and reducing compliance costs - is rated modest, since outcomes fell short of expectations. Efficacy of the second objective - strengthening financial sector stability, promoting transparency of shareholding and easing access to finance - is rated negligible, since none of the sub-objectives was achieved - deteriorating confidence in the banking sector was not halted, greater shareholding transparency was not attained, and the measures supported by the series did not increase access to credit. Efficacy of the third objective is rated substantial. The evidence presented indicates better managed, more equitable public spending, although the degree to which efficiency was enhanced is less clear. Overall, shortcomings are considered significant, and outcome is assessed as moderately unsatisfactory.

### a. Outcome Rating

Moderately Unsatisfactory

## 6. Rationale for Risk to Development Outcome Rating

**Governance and corruption risk.** Corruption and governance risks in the financial sector remain a serious concern in Moldova. A Constitutional Court ruling in October 2013 curtailed the NBM's supervisory powers, and a decision to reverse this is still pending. Investigations into bank fraud are still ongoing. Oligarchs retain significant influence over the political process. Although charges have been brought against some individuals, convictions have been rare, suggesting that the continuing efforts towards proper oversight of the banking sector could be undermined.

**Fiscal risk.** There is a risk that public investment may be fiscally constrained; it relies heavily on external financing.

Weak achievements in most areas supported by the series also present a risk to the program's sustainability.

### a. Risk to Development Outcome Rating

High

## 7. Assessment of Bank Performance

### a. Quality-at-Entry

Design was able to draw on analytical work, including the joint IMF/World Bank Financial Sector Assessment Program (FSAP), undertaken in 2014 and from the audit of Banca de Economii. The program was prepared in coordination with the other development partners (see Section 2e above). Appropriate arrangements were made for addressing fiduciary compliance issues (see Section 10 below). Additional financial and technical contributions for complementary activities were provided by the IMF (financial sector reform), the EU (public investment management), and the Government of Moldova (additional budget support), (ICR, paragraph 24). The ICR provides no details on the contributions from these agencies.

There were, however, major shortcomings in Quality at Entry. First, although prior experience with World Bank-financed operations in Moldova had highlighted the need for selectivity, the operation was complex and wide-ranging, encompassing six policy areas with limited synergy. Second, the outcome indicators chosen were not always critical, or even fully relevant, to the achievement of the objectives. Third, evidence specific to Moldova to support the hypothesis that reforms would achieve their goals was sometimes lacking (there was, for instance, little basis to expect that banks would be prepared to accept movable assets as collateral for loans). Fourth, the extent to which political economy concerns were analyzed and taken into account appears inadequate. In particular, governance risks in the banking sector were underestimated (despite concerns about fraud since 2011). Partly because of this underestimation, the program's sub-objectives for the sector were overly narrow, focusing on stability and shareholder transparency, rather than on broader governance dimensions. Indeed, financial sector issues in Moldova were, and remain, sufficiently serious to justify a separate, dedicated operation or series. Fifth, analytical work in some areas could have been more rigorous. For example, assumptions about which types of machinery would most assist innovative farming practices were based on the undocumented opinion of a consultant, rather than a thorough assessment. Sixth, there were weaknesses in M&E design (see Section 9 below). Seventh, the timing of the series was questionable, given that implementation suffered from political turmoil following parliamentary elections.

#### Quality-at-Entry Rating

Unsatisfactory

### b. Quality of supervision

According to the ICR, Bank staff reacted "promptly and skillfully" to the crisis in the banking sector, building on the audit of BEM, which provided important insights into Moldovan banking activities. Financial sector triggers and prior actions for DPO2 were increased and strengthened based on measures agreed with the

IMF and with the Authorities at Prime Ministerial level, However, the quality of results evident at series closure were still insufficient to halt declining confidence in the banking sector.

There were two other shortcomings. M&E design weaknesses were not adequately addressed during implementation. Moreover, an Implementation Status and Results (ISR) report for DPO1, which was required because of the 24-month gap between the first and second operations, was not produced.

### Quality of Supervision Rating

Moderately Unsatisfactory

### Overall Bank Performance Rating

Unsatisfactory

## 8. Assessment of Borrower Performance

### a. Government Performance

The Government was reportedly proactive in seeking inputs to the reform program from a broad range of stakeholders. During preparation of the National Development Strategy, it had introduced an interactive web site to solicit comments and suggestions. There was consultation with Non-Governmental Organizations (NGOs). The Ministry of Agriculture and Food Industry carried out consultations every year with stakeholders regarding the annual subsidy program, prior to its finalization.

There was, however, a lack of consensus at the highest level of government on the required reforms in the banking and agricultural sectors. Pressure from vested interests contributed to implementation delays in completing prior actions for DPO1. Although some of these difficulties were resolved during preparation and implementation of DPO2, the reform program remains incomplete, especially in the financial sector, reflecting in part the continued influence of powerful oligarchs. There were also administrative weaknesses. For example, transfer of responsibility for monitoring the program from the State Chancellery to the Ministry of Finance led to a lack of continuity, caused some confusion in monitoring arrangements, and contributed to the loss of important documentation.

### Government Performance Rating

Moderately Unsatisfactory

### b. Implementing Agency Performance

The government as a whole implemented the program, and there is no separate assessment of implementing agency performance.

### Implementing Agency Performance Rating

Not Rated

### Overall Borrower Performance Rating

Moderately Unsatisfactory

## 9. M&E Design, Implementation, & Utilization

### a. M&E Design

The Program Documents provided limited information on the monitoring arrangements. The State Chancellery was to be in charge of monitoring progress in the policy areas supported by the operation. However, no details were provided on the arrangements for data collection and analysis.

Some of the indicators in the results framework were inadequate, and documentation of indicator definitions was insufficient. Several changes in the results framework for DPO2 (for instance, the reduction in the target from 100 percent to 80 percent for legislation and regulations subject to a regulatory impact analysis) were not adequately explained. In other cases, the rationale behind the choice of indicators was unclear. For example, the "share of loans secured by movable collateral relative to the stock of outstanding loans" was, at best, only partially consistent with the Government's strategic priority - set out in "Moldova 2020" - to reduce financing costs, which it hoped would lead to a significant increase in financing volumes. Targeting the share of agricultural subsidies supporting "high value activities" did not take account of the lack of documentation on the criteria for defining such activities. The introduction of a gender dimension in targeting receipt of social benefits was inconsistent with the government definition of eligibility by household.

### b. M&E Implementation

As noted in Section 8 and 9a above, the responsibility for M&E was transferred from the State Chancellery to the Ministry of Finance in 2017. The ICR provides no reasons as to why this change occurred. No attempt appears to have been made to resolve the confusion surrounding the meaning of some results indicators and how they were to be monitored.

### c. M&E Utilization

The ICR provides no information on M&E utilization.

### M&E Quality Rating

Modest

## 10. Other Issues

### a. Environmental and Social Effects

The series was expected to have a positive social impact, since it supported public expenditure reforms to target the poor more effectively and to rebalance agricultural subsidies to the benefit of smaller farmers (ICR, page 29). The series did not trigger any safeguards policies, and the ICR does not report on any environmental impact.

### b. Fiduciary Compliance

A Public Financial Management Assessment conducted before appraisal noted improvements in public financial management practices and concluded that the financial management risk was moderate (Program Document for the First DPO, page 26). The ICR does not report any fiduciary compliance issues.

### c. Unintended impacts (Positive or Negative)

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### d. Other

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## 11. Ratings

| Ratings | ICR | IEG | Reason for Disagreements/Comment |
| --- | --- | --- | --- |
| Outcome | Moderately Satisfactory | Moderately Unsatisfactory | The series presents significant shortcomings in the form of modest design relevance and modest and negligible efficacy ratings of two out of three objectives. |
| Risk to Development Outcome | High | High | --- |
| Bank Performance | Moderately Satisfactory | Unsatisfactory | There were major shortcomings in Quality at Entry. |
| Borrower Performance | Moderately Satisfactory | Moderately Unsatisfactory | There were significant shortcomings in government performance. |
| Quality of ICR | | Substantial | --- |

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

## 12. Lessons

The most important lesson in the ICR is the following (with some adaptation of language):

**(1) Development policy objectives that are broad in terms of thematic and sector coverage are likely to encounter implementation and coordination difficulties, particularly in countries with weak administrative capacity.** This is confirmed by experience from these operations, where attempting to address several diverse policy areas at the same time stretches implementation capacity and complicates the monitoring of impact.

IEG draws the following lessons:

**Unless political economy dimensions are carefully considered at the design stage, achievement of a DPO's objectives is likely to be jeopardized.** In this case, the timing of the operation was less than optimal, since implementation suffered from political turmoil following parliamentary elections. Also, more account should have been taken of the influence of powerful oligarchs over reform programs, especially in the financial and agricultural sectors, and an analysis made of how this might have been mitigated.

**Sectors presenting especially difficult challenges may be more appropriately addressed by separate, dedicated operations**. Here the issues in the financial sector were of such magnitude and complexity as to affect Moldova's macroeconomic stability as well as general confidence in the economy. Under such circumstances, including financial sector reform as one of six distinct policy areas overstretched the country's limited implementation capacity. Still more importantly, the reforms that were attempted were sufficient in both number, depth and scope to go to the heart of the problems facing the sector.

## 13. Assessment Recommended?

No

## 14. Comments on Quality of ICR

This ICR is thorough and analytical. It provides convincing explanations why some indicators were either not relevant or not compatible with the program objectives. The discussion of efficacy could have been clearer. In some cases, it is difficult to understand the rationale for the ratings (the ICR rates outcome as moderately satisfactory when most of the intended results were not realized). More detailed consideration of M&E,

especially implementation and utilization, would have been helpful. The organization and coverage are in accordance with the harmonized IEG-World Bank guidelines. However, at over 30 pages of main text, the document is long (versus the mandatory length of 15 pages).

**a. Quality of ICR Rating**

Substantial