Report No. 28981

Moldova
Country Assistance Evaluation

October 22, 2004

Operations Evaluation Department

Document of the World Bank

Abbreviations and Acronyms

AAA	Analytic and Advisory Activities
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CG	Consultative Group
DFID	Department for International Development (UK)
EIU	Economic Intelligence Unit
ESW	Economic and Sector Work
EU	European Union
FSU	Former Soviet Union
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MTC	MoldTelecom S. A.
p.c.p.a.	per capita per annum
PRGF	Poverty Reduction and Growth Facility
QAG	Quality Assurance Group
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SIF	Social Investment Fund
USAID	United States Agency for International Development

Director-General, Operations Evaluation	:	Mr. Gregory K. Ingram
Director, Operations Evaluation Department	:	Mr. Ajay Chhibber
Senior Manager, Country Evaluation and Regional Relations	:	Mr. R. Kyle Peters
Primary Author / Consultant	:	Mr. Paul Meo

Contents

Preface .... **iii**

Summary .... **v**

1. Creating a Nation and Market Economy in Moldova **1**

2. The World Bank Strategy and Program **5**

Strategy 5
Lending 6
Analytic and Advisory Assistance 9
Aid Coordination 10

3. The Bank's Development Impact **13**

Sector Impact 13
Overall Outcome of Bank Assistance Program 18

4. Attribution **21**

5. Lessons and Recommendations **27**

Box

Box 4.1 How Not to Privatize 22

Tables

Table 2.1: IBRD/IDA Commitments to Moldova, FY (US$ millions) 6
Table 2.2: Ex-Post Project Ratings (by numbers of projects) 7
Table 3.1: Development Outcomes in Moldova 19
Table 4.1: Per Capita Commitments, IBRD and IDA (in US$) 22

Annexes

Annex A: Statistical Annex 29
Annex B: People Consulted While Preparing the Moldova CAE 39
Annex C: OED's Country Assistance Evaluation Methodology 41
Annex D: Management Action Record 45
Annex E: Government's Comments on the Draft CAE 47
Government's Comments on the Draft CAE (English Translation) 51
Annex F: Chairman's Summary 55

Preface

This evaluation provides an independent assessment of the role of World Bank assistance to Moldova during the period 1993–2003. The Country Assistance Evaluation (CAE) examines whether: (a) the objectives of Bank/IDA assistance were relevant; (b) the Bank's assistance program was effectively designed and consistent with its objectives; and (c) the Bank's program achieved its objectives and had a substantial impact on the country's development during this period. Examining these questions allows the CAE to draw lessons and recommendations for future Bank assistance. Annex C describes the methodological approach.

The basis for the CAE consists of OED project assessments, sectoral reviews, and interviews with past and present Government officials, Moldovan civil society, other donors, as well as Bank and IMF staff at headquarters and in Moldova. A list of those interviewed is shown in annex B. An OED mission visited Moldova during May 2003. The draft report was sent to the Moldovan authorities whose comments are in annex E. This evaluation was discussed at a meeting of the CODE Subcommittee on June 2, 2004 and annex F contains a summary of that discussion.

This Country Assistance Evaluation was written by Paul Meo (Consultant) with the assistance of Wilfred Candler (Consultant). Richard Berney (Consultant) provided support on the energy sector. This evaluation also benefited from comments of two peer reviewers: Mr. René Vandendries (Consultant) and Ms. Francesca Recanatini (WBI). Anar Omarova, Maria Claudia Pachon, and Danuta Danilova provided research assistance. Agnes Santos provided administrative and editorial support.

Summary

Moldova, a Soviet Republic created out of territory once controlled by Romania and Russia in the last century, became independent in 1991. It joined the Bank and Fund in 1992, and has received strong Bank advisory and financial support since. Unlike many Former Soviet Union (FSU) republics, it had no history of prior independence, and was ethnically quite diverse. Moreover, its middle-income status was only achieved by massive Soviet energy subsidies as well as guaranteed markets for a variety of horticultural and livestock products. Independence ended the subsidies as well as Moldova's relatively sophisticated defense industries and livestock production. Soon after independence a *de facto* partition of the country took place after a brief conflict. World Bank research indicated that Moldova would be the FSU republic most affected by the move to world prices. It was. By 2000, per capita GNP was only 40 percent that of 1990, and most Moldovan households had incomes less than half the subsistence level. Moldova also encountered debt problems; the present value of debt-to-GDP ratio reached 90 percent in 2000. Its once effective social systems were rife with bribery and inconsistent with the nation's much more limited fiscal resources. In 2001, the voters elected a Government led by the Communist Party of Moldova that had campaigned on a strong anti-reform platform.

The poor economic performance occurred despite the country's initial rapid stabilization. It was among the first FSU republics to control inflation and liberalize trade and price regimes. But other structural reforms were delayed. In particular, Moldova's dependence on agriculture underlined the need for rapid agrarian reform. Unfortunately, this did not begin until 1997, and was not completed until 1999. The reform delay and the lack of direct foreign investment contributed to the stubborn economic decline. Frequent governmental changes, increasing corruption, and weak institutions exacerbated the country's problems. Moldova was among the last of the FSU republics to begin economic recovery, and even today this buoyant recovery—based on Russian economic growth and the effect of the initial reforms—looks difficult to sustain, given the poor investment climate and uncertain economic policies.

The Bank had relatively consistent and appropriate goals for its Moldovan program. These were to recover positive economic growth, private sector development and public sector reform, and to ameliorate the effect of the transition on Moldova's poor. High case lending scenarios would involve substantial (one-third) program lending, support for private sector (particularly agricultural) development, and public sector reform. Analytic and Advisory Activities (AAA) would be used to identify lending interventions in social safety nets and the social sectors. The massive distortions in energy were to be addressed through AAA as well as lending. The Bank's country assistance strategies (CASs) were well designed and relevant with one exception; the FY02 CAS Progress Report did not reflect the Government's minimal ownership of the interim poverty reduction strategy and the reform program.

The thrust of the strategies was followed, but the detailed implementation was at variance. Program lending rose to 60 percent of the total, which was well above the levels in the approved strategies; investment lending was much below expectations. Follow-on energy projects were deferred in 1997 when it became clear that no commitment to reform could be assured. Public sector reform loans were also deferred. Some agricultural projects were either dropped or delayed when agrarian reform lingered. The Bank took risks through generous policy loans to push stalled reforms while deferring investment loans because of this same stagnation. The anticipated impact of the policy loans was not achieved. Unfortunately, until recently there was little dialogue on Moldova's growing corruption, nor was it addressed via projects.

The Bank's AAA was generally relevant and had an impact on government and donor decisions. The first (and only) Country Economic Memorandum (CEM) in the early 1990s contributed to a good understanding of the economy. The Bank's poverty work has been deemed useful by donors and government, and had a direct impact on social reforms. A Public Expenditure Review (PER) in the mid-1990s was among the first to focus on the growing payment arrears and underlined the unsustainability of Moldova's expensive social systems. The Bank also used its AAA to guide and coordinate with other donors, although its proposal to organize a consultative group encountered a lack of bilateral donor interest. However, there was no CEM between 1993 and 2003. A carefully done CEM in the mid-to-late 1990s might have shown that the Bank's optimism about Moldova's prospects needed to be tempered and would have highlighted the fundamental reasons for the country's economic decline, as well as the implications of reform deferral.

The Bank's assistance program translated into substantial financial transfers. Encouraged by major shareholders, per capita IBRD lending by the Bank during FY1993–98 (before Moldova became eligible for IDA) was more than twice the average for other small countries. During 1993–96 the Bank provided a third of Moldova's net official receipts; during 1997–01, IDA provided a quarter, in spite of growing amortization payments from prior loans. Only recently has Bank financial support declined. Limited bilateral support and substantial lending by multilaterals meant that by the end of 2001 half of the public long term external debt was owed to multilateral creditors, and 38 percent of it to the Bank Group.

Given the Bank's assistance program objectives—recovery of self-sustaining growth, development of an efficient, private sector-led market economy, and poverty alleviation—the **outcome** of the Bank's assistance program to support Moldova's 1992-02 development effort must be defined as *unsatisfactory*. Moldova was among the last of the FSU economies to return to positive GDP growth; it is now the poorest country in Europe and remains highly indebted, rescheduling debts in an environment of severe payments problems. While its privatization progress as measured by Bank indices is only slightly below FSU averages, its governance remains weak and opaque. The Government is reluctant to apply market-based policies, and has treated some major foreign investors with hostility. It has reversed some privatizations. Moldova's poverty has led to significant emigration. It has made little progress towards the Millennium Development

Goals. The country was neither able to comply with its IMF Poverty Reduction and Growth Facility (PRGF) nor some of the Bank's major SAC III conditions; both have now lapsed. As a result of this track record and some recent fiscal laxity and erratic privatization policies—which have made private investment and multilateral support hesitant—the **sustainability** of its recent economic recovery is *unlikely*. The **institutional development impact** of the Bank's Moldovan projects has been mixed. The banking system and some other systems have done well, but social institutions remain weak and may be unviable fiscally. The country's acute and worsening corruption indicates that the legal framework is not being effectively implemented. All these lead to a conclusion that the institutional impact of the Bank's program has been *modest*.

The Bank was not alone in underestimating the difficulty of Moldova's transition. The process required to transform a command economy into a market one can be lengthy and chaotic, particularly when the citizens lack consensus and the institutions are dysfunctional. The lesson is that the Bank needs to assess the economic outlook and the country's problems and prospects through such instruments as CEMs. A second lesson concerns governance. Moldova's corruption is not unique, but has proven especially harmful because it seems to have worsened. Yet the Bank has not addressed this issue until recently. A clear expression of the Bank's position on governance issues is likely to be more productive. A final lesson is the importance of quickly addressing the sustainability of social programs in middle-income countries suffering massive falls in income. The Bank correctly diagnosed the issue but found it difficult to convince the authorities to take the necessary drastic steps. Yet, without such action, Moldova found its capacity to sustain social services in continuous decline.

This CAE recommends:

- Undertaking a Country Economic Memorandum or a Development Policy Review to analyze and prioritize key development priorities, including governance issues, especially in the energy and social sectors, and factors constraining the investment climate.

- Avoid further adjustment lending until a stronger Government commitment to reform is evidenced.

- Focus project interventions in the social sectors and take concrete steps in each lending operation to guard against corruption and use civil society to monitor effectiveness.

Gregory K. Ingram
Director-General
Operations Evaluation

1. Creating a Nation and a Market Economy in Moldova

1.1 The region north of the Black Sea has been a crossroads for millennia. Jason searched it for golden fleece. The Roman Empire used it as a granary; its offshore depths are scattered with the detritus of galleys. A language of the area—Romanian—underlines its Latin past, but Viking wanderers, Turkish conquerors, and Cossack warriors all settled in the area north of the Danube delta. The expanding Russian empire finally sprawled across the Dniester River, reaching the Prut. With Balkan independence, however, Romania gained sovereignty over Bessarabia, the area between the Dniester and Prut. During World War II the Soviet Union annexed Bessarabia and later combined it with its own Dniester area to form the Soviet Republic of Moldova. As the Soviet Union dissolved, Moldova declared its independence on August 27, 1991. The new, small republic (only 338,000 sq. km.) was landlocked, touching the Danube River only for a few meters in the south.

1.2 Independent Moldova's population of 4.3 million was a diverse mix. Today, the majority (about two-thirds) are ethnic Romanians. Ukrainians and Russians make up about a quarter of the population. In the south, there is a significant number of ethnic Turks. During Soviet times, both the Russian and Romanian languages were used, with the Cyrillic alphabet required. As in other ethnically-mixed nations, independence brought problems of comity. The decision, in 1991, to establish the Latin alphabet and make only Moldovan (which is similar to Romanian) the official language produced a secession movement in the area east of the Dniester River. This Transnistria region had a higher proportion of Russians and Ukrainians among its 575,000 population, and they feared the next move would be a merger with Romania. Their secession was supported by a Russian army stationed in the area, and after a short civil war, a *de facto* partition resulted that was accepted by both sides.

1.3 Moldova's economy in 1990 reflected its moderate continental climate, very fertile soil, and strong integration into the Soviet system. It produced a large proportion of Soviet wines, and its production of fruits and vegetables was sent throughout the Union. Grains imported from Russian and Ukrainian steppes served as feed for a substantial livestock sector. Manufacturing, mostly clustered along the Dniester River, included sophisticated defense plants, a steel plant, and a variety of light industries. Social indices were high, illiteracy rare, and the republic boasted many universities. The temperate climate, while excellent for a broad variety of agricultural production, was complemented by a relatively low rainfall. This made Moldova attractive for retiring Soviet workers, but also brought frequent droughts. The Bank estimated the new country's 1990 per capita GNP at US$2,350; well above that for International Development Association (IDA) eligibility.

1.4 The economy, however, was saddled with major distortions caused by the command economy and an implicit price structure extremely inconsistent with world prices. First, while Moldovan agricultural products were favorably viewed by Soviet customers, they did not meet Western quality, safety, and packaging standards. And they were relatively expensive, compared to Western European equivalents. Indeed, it quickly became apparent that much of Moldova's livestock was uncompetitive with Russian or

Ukrainian alternatives. Second, independence led to the collapse of the defense industries. Third, while not as excessive in energy use as some other republics, Moldova's energy inputs were highly subsidized. The open economy made them unsustainable; a World Bank researcher modeling the effect on each of the Soviet republics of switching to world prices found Moldova would be the most adversely affected.[1] At independence, Moldova also had little experience on the international stage. Virtually all economic management—production goals, input purchases, and marketing—had been by Moscow-based planners. Moldova's technocrats and politicians were new to autonomous decision-making, and had limited knowledge of global demands, procedures, and standards.

1.5 These adverse initial conditions were aggravated by political/social uncertainties. The *de facto* Transnistria secession removed much of Moldova's modern industries. About 80 percent of the nation's electricity is generated by a plant in Transnistria, and the major road and railway to Odessa, the nearest Black Sea port, go through Transnistria.[2] Transnistria's departure in no way ended the debate about Moldova's future. There was little consensus on some fundamental points of nationhood—language, economic system, and even the pattern of future economic associations. Some Moldovans preferred an association with Romania; others viewed their future as linked to Western and Central Europe; and, still others desired to continue and strengthen Moldova's association with Russia..

1.6 Even with all these adverse factors, Moldova's transition began quite well. A land reform law had been passed in 1990, and the transfer of garden plots (averaging 0.3 ha., and totally 10 percent of agricultural land) had begun. Independence brought accelerated change. Most product prices were freed in January 1992, and the protective trade regime was soon liberalized. Further legislation "privatized" the state farms as joint stock companies. Many remaining price distortions were removed or ameliorated over the next two years. The National Bank of Moldova (NBM) was transformed into a Central Bank, a parliamentary system of government chosen, and a constitution written. The inflation caused by both massive price adjustments and Ruble inflation led the Government to quickly decide on a national currency, the Leu. It was introduced successfully in late 1993, and monthly inflation rates dropped from 37 percent in January 1993 to only 3 percent by December 1994; by mid-1996 it had fallen to 0.1 percent. As early as 1994, Moldova was viewed as one of the most successful FSU reformers, and positive economic expansion was expected in a timely manner.

1.7 It was not to be. Moldova's volatile political scene led to frequent changes of government; since independence the average tenure of Governments averaged just over one year. But these frequent changes only mirrored the ambivalence within Moldova; an

---

[1] Tarr, David G. 1993. "How Moving to World Prices Affects the Terms of Trade in 15 Countries of the Former Soviet Union." Policy Research Working Paper No. 1074. Washington, D.C.: The World Bank.

[2] Transnistria's secession affects statistical precision. Moldova's GDP for 1989–91 includes Transnistria; subsequently it is excluded. Official Bank data show a population estimate of 4.3 million, including 0.6 million for Transnistria. This CAE uses the lower estimate of Moldova's population of 3.7 million for comparisons, except GNI per capita, where it uses the Bank's official data. The lack of a recent census combined with emigration flows also makes numerical precision difficult.

ambivalence that delayed addressing the more difficult structural reforms required for a rapid transition to a market economy. True land reform, privatization of major enterprises—both agricultural and industrial—and public sector reforms were hesitant and partial. While voucher programs smoothly transferred ownership of living quarters, they led to major problems when applied to productive assets. The corporatized state farms and collectives also languished; production fell drastically while arrears increased rapidly, reaching 25 percent of GDP by 1999. Machinery deteriorated, workers remained unpaid, and the economy's heart beat slower. Voucher privatizations and "sale" of firms to clientele or providers had brought little or no real ownership, as managers and employees stripped assets. Modern economic legislation was passed, but had little impact. The result was a continuous drop in GDP.

1.8 By 2000 Moldova's per capita income was less than 40 percent that of 1990; this compares to averages of 50 percent for the rest of the FSU countries, and about 75 percent for Central and Eastern Europe. Almost 88 percent of households had incomes below subsistence levels; 53 percent had less than half the subsistence level. Moldova had become the poorest country in Europe. Moreover, the new nation's size and small geopolitical clout meant it attracted little attention from bilateral donors. Partly to compensate for this low level of grants, the Bretton Woods institutions lent substantial sums and Moldova's debt accelerated rapidly. In 1997, when Moldova's income fell below the threshold for IDA eligibility and its creditworthiness was questionable, it became an IDA country. Nevertheless, by 2002, its total external debt, even when external arrears were excluded, exceeded exports (including remittances), and equaled three quarters of GDP; over half of the public external debt was owed to Bretton Woods institutions; and only a fifth of the total was concessional.

1.9 As incomes fell, corruption increased. By 2002, it ranked below average in the six governance indicators used by Kaufmann, Kraay, and Mastruzzi, and had deteriorated in all but one of them since 1996.[3] Deteriorating governance is also reflected in other available indices.[4] Low official salaries and poverty are important contributing factors to the malaise of corruption. Teachers and doctors earned $20-30/month; a modest urban apartment rented for twice as much.

1.10 Rural workers were often unpaid, and the elderly were eligible only for extremely low pensions (about $10/month), often also unpaid. Not surprisingly, "fees" for public services (including judicial decisions, university entrance, hospital treatment) became standard, and prior state assets were appropriated by all. Smuggling had become endemic from the "Transnistria Republic," and the spillover of this traffic affected Moldova. With ten percent of the population, Transnistria imported more than ten times the appliances and spirits of Moldova, and more than a hundred times the cigarettes. Repeated efforts by the Moldovan authorities to harmonize Moldovan and Transnistrian customs staff and approaches have so far failed.

---

[3] Kaufmann, D., A. Kraay, and M. Mastruzzi. 2003. "Governance Matters III: Governance Indicators for 1996-2002." World Bank. <http://www.worldbank.org/wbi/governance/data.html>.
[4] At the CODE subcommittee meeting, the representative for Moldova noted that the Government had approved an anti-corruption strategy and an action plan (see annex F).

1.11 Rural poverty and underemployment led to external migration; Moldova's major export became its workers. While hard numbers are scarce—more than a decade has passed since the last census—probably over a tenth of the workforce emigrated to Greece, Italy, Russia, Ukraine, and the capital cities of Western Europe. Some were farm workers, others worked in construction; most worked illegally. Remittances from these emigrants has become a major factor in the economy. By 2002, registered remittances were about US$250 million; estimates suggest that unregistered flows may have added US$150 million more, making the total equal to about two-thirds of goods exports.

1.12 The impoverishment of the country led to a strong reaction. In 2001, the Communist Party of Moldova—running on an anti-reform platform—won a majority of votes and an even stronger majority of parliamentary seats. Its initial reversal of some reforms—trade, pricing, and even privatization—paused when it realized it would have little external support for such an approach. Its pre-election objectives of ending corruption and of convincing Transnistria to rejoin the nation have so far been unfulfilled. While economic growth has returned as the Russian economy expands—and some earlier reforms took effect—Moldova's debt problems remain acute, corruption remains strong, market legislation does not deter occasional *dirigiste* measures, private foreign investment confronts an adverse climate, and the nation's future economic path seems uncertain.

2. The World Bank Strategy and Program

2.1 Moldova joined the World Bank and the International Monetary Fund (IMF) on August 12, 1992. The Bank's first estimate of its per capita GNP placed it within the middle-income (indeed, almost in the "upper middle income") group of countries, and because it soon adopted the "zero option" offered by the Russian Federation (FSU republics could transfer all claims on foreign assets or liabilities to Russia; they thus began with no foreign debt) it was deemed creditworthy for International Bank for Reconstruction and Development (IBRD) lending. The Bank responded rapidly with a variety of missions. Financial support was equally prompt. A severe drought in 1992 led to substantial drops in agricultural production and exports, so the Bank quickly prepared and approved a US$26 million Emergency Drought Recovery Project in early 1993. In the first of a series of collaborative efforts, the IMF also approved an SDR 13.5 million Compensatory and Contingent Financing Facility. As the authorities moved to issue their own currency, the IMF provided an additional SDR 45 million from the Systemic Transformation Facility, and before year-end the Bank approved a US$60 million Rehabilitation Loan.

Strategy

2.2 The Bank's strategy was originally outlined in a rehabilitation loan document, and then expanded in a country strategy prepared in the mid-1990s. A later country assistance strategy (CAS) was circulated to the Board in 1999, and a CAS Progress Report accompanied the 2002 Structural Adjustment Credit (SAC) III, proposing an FY03–04 program. After detailing the authorities' reform program, the Bank's first strategy proposed early and strong support to the government's program for the transition to a market economy, including advancing the privatization program, improving market incentives, and protecting the most vulnerable parts of the population. Lending—in the high case—was proposed for economic stabilization, privatization, private sector development, financial sector reform, social safety net, agricultural and energy reforms, and institution building. The difference between the base and high cases was two policy-based lending operations planned for FY95 and FY96. The strategy benefited from a recent Economic Report and substantial sector work. While the two cases had no numbers or specific triggers, the paper noted the high case—to support reforms—seemed the more likely one. The first loan in the social sectors was proposed for FY96.

2.3 Bank strategies in the mid- and late-1990s were far more detailed, but the general goals—and the sectoral lending emphasis—remained similar. The Bank's strategy in the mid-1990s was aimed at supporting the implementation of the Government's reform agenda to establish self-sustaining growth. This was to be based on increased competitiveness, particularly in agriculture; improved energy efficiency; emergence of a service sector; and improving the country's human resources. While the strategy in early 1990 had noted Moldova would likely be the most adversely affected of all ex-Soviet Republics, the Bank's strategy in the mid-1990s raised specific concerns over creditworthiness. It pointed out that there were serious doubts about Moldova's creditworthiness under a scenario of muddling through and indicated incomes had fallen almost to the IDA range. Nevertheless, based largely on Moldova's successful macroeconomic stabilization, it proposed a relatively large IBRD lending program for FY96–98, noting that to do less means would entail a serious cost to Moldova and would adversely affect its growth prospects. This conclusion led to a US$100 million structural adjustment loan/credit a year later; twice the size proposed in the assistance strategy and almost US$30 per capita. The recent sale of government Eurobonds was perceived as a positive sign.

2.4 The 1999 CAS was candid and forthright. It noted that Moldova was now one of the poorest countries of Europe, had among the lowest foreign direct investment, and listed the deferred reforms and their impact. Moldova was now an IDA-only country, and had been since 1997. A recent poverty report provided a wealth of information as well as a more sophisticated strategy. The projection scenarios were realistic, and the proposed, more modest lending linked to appropriate triggers. The three-year high-case program would be US$195 million, almost US$100 million below that proposed in 1996. But the strategic thrust was essentially the same—to support macroeconomic growth and stability, private sector development and public sector reform. Nevertheless, poverty-linked lending was a specific “focus” of the CAS, which proposed lending for social protection, a social investment fund, and health reform. Some of the public sector reform loans—proposed to be fast-disbursing vehicles—would also be linked to improved provision of key services for the poor.

Lending

2.5 Between FY93 and FY03, the World Bank lent US$529 million in direct IBRD/IDA assistance, excluding US$1.4 million in International Development Fund (IDF) grants as well as Global Environment Facility grants for additional micro-projects (table 2.1). Not only was the World Bank (and IDA) by far the most important lender to Moldova, it marshaled US$81.6 million in co-financing; US$50 million for direct disbursement, the rest as technical assistance grants. This high level of support was actually *below* that suggested in the “high case” assistance strategy proposals of the mid- and late-1990s; the former had recommended US$290 million in lending (vs. US$206.7 million actual), the latter US$195 million (vs. US$76.1 million actual). Lending since FY99, however, has been far more moderate.

Table 2.1: IBRD/IDA Commitments to Moldova, FY (US$ millions)

	FY93	*FY94*	*FY95*	*FY96*	*FY97*	*FY98*	*FY99*	*FY00*	*FY01*	*FY02*	*FY03*
Program Loans	26	60	60			100	***40***			***35***[a]	
Energy				10							
Ag/Rural				10		***20.9***				***10.5***	
Priv. Sec Devt.			30	35	***9***						
Education					16.8	***5***					
Infrastructure											***19.2***
Social Prot./Inv.							***26.1***				
Health									***10***		5.5

[a] Includes US$5 million supplement.

N.B. The FY98 Program Loan was half IDA; all subsequent, italicized operations were IDA.

2.6 Bank lending, at least in approach, was relatively consistent with the country assistance strategy proposals. Many SAL/SAC conditions—as well as the thrust of its lending—mirrored the strategy. Of the 28 loans (excluding supplements) proposed in the assistance strategies, 22—about three-quarters—were made as proposed and within one year of the plan. A financial sector adjustment loan was dropped as not needed, a judgment confirmed when analytical work led to major bank improvements during the Russian crisis (see para. 3.3). Follow-on energy projects were deferred from 1997 to 2003 when it became clear that energy issues were politically difficult and commitment to reform was not assured (see para. 3.17). The same happened with public sector reform loans. Some agricultural projects (irrigation, agricultural services) were either dropped or deferred when agrarian reform dallied (see paras. 3.8–3.15)

2.7 What stands out, however, is the high proportion of program loans—60 percent (compared to one-third as proposed in the assistance strategies)—and their absolute amounts—US$9 p.c.p.a.; during 1999-2001, three-quarters of the external flows for budgetary support came from World Bank adjustment credits. There were many reasons for this shift, but the major one stemmed from increasing structural adjustment lending above that proposed, while deferring investment loans. Indeed, the deferred investment loans led to lower than projected overall lending levels. In essence, the Bank used generous policy loans to push stalled reforms while deferring investment loans because of this same stagnation.

2.8 Overall, the *ex post* evaluation of individual loans ranks Moldovan projects as only slightly below par for the Region for outcome, but sustainability and institutional development are well below regional and Bank averages (table 2.2). Nine Bank loans to Moldova have been evaluated by OED, but only one has been subject to a more detailed assessment. Three were rated either unsatisfactory or marginally unsatisfactory in outcome; while six were ranked satisfactory, four of these were only marginally so. Only three had likely sustainability, and only one had substantial institutional development impact. If the Baltic countries are omitted, Moldovan projects ranked similar in outcome and sustainability as the FSU average; their institutional development impact is significantly below even the low FSU average.

Table 2.2: Ex-Post Project Ratings (by numbers of projects)

	% Satisfactory Outcome	***% Likely Sustainability***	***% Substantial Inst. Devt. Impact***
Baltic Countries	93	93	82
Central and E. Europe	86	81	54
Russian Federation	52	90	36
Other CIS	78	66	48
Overall Average	82	78	53
Moldova	70	50	20
(Bank-wide)	(74)	(62)	(43)

Source: OED. 2004. *An Evaluation of World Bank Assistance to the Transition Economies*. Washington, D.C.: The World Bank.

2.9 The adjustment and rehabilitation loans were, by far, the more important vehicles for Bank impact. While many were linked to key issues, their results were less than expected. The Drought Relief and Rehabilitation loans had few conditions. The first, however, led to major arrears by the beneficiary farmers, since few paid for their imported inputs, a fact omitted in an internal Bank completion report and the subsequent OED desk review. The Rehabilitation Loan was unsuccessful in imposing budget constraints on the "privatized" state farms; major agroindustries were not privatized as planned; and government and importers continued to accrue arrears, thus delaying reforms. SAL I agricultural conditions proved both concrete and enforceable. While little land reform was achieved by these initial program loans, they did indeed serve as effective vehicles to discuss other matters—trade regime and factor price liberalization, institutional reforms, and other important reforms. As noted later, SAC III was very likely a major vehicle in deterring policy regression, although on closing the latter tranches were cancelled, and key loan objectives, such as improving the investment and agricultural climate, were not achieved.

2.10 Some of the initial investment loans were poorly chosen. An early export credit guarantee was cancelled when demand turned out to be nil. The first agricultural project—for research—was an extremely poor choice. The status of ongoing agricultural projects is better (see para. 3.15). Private Sector Development I, while very costly, was both well managed and important to firm restructuring. To some extent it ameliorated the adverse impact of prior voucher programs. The Social Investment Fund (SIF) project and the Cadastre project are relatively successful. While the extremely low salaries in the social sectors leave doubts about the fiscal viability of the social systems being supported by the SIF, education, and health projects, they have indeed encouraged some reforms, as has the social safety-net (pension) effort. While the Region's estimation that no projects now underway (as of January 1, 2003; annex A, table 5b) are at risk may be optimistic, recent investment lending seems to be more successful.

2.11 One issue, however, does stand out in past project lending; a naiveté over Moldova's corruption. The Cadastre project was supposed to develop a sustainable registry office by charging users about US$20 for land registration. In the event, few paid this fee, and Bank staff accepted the officials' statements that virtually any fee would be too onerous. In fact, specific surveys by a local NGO show that farmers paid more than half the foregone fees in bribes to these same officials to register land. Nurses and teachers must continue to take bribes while social sector projects defer putting in place a modest fee-for-service system, with fees linked to each clinic or school's budget.[5] A condition to measure imported gas at the border was dropped from Energy I; probably one of the most important conditions in the loan (see para 3.17). And the education loan supported an improved evaluation (testing) process without acknowledging this process was affected by bribery; a national scheme with grading done in the capital city might have reduced this propensity.

[5] The prevalence of informal fees in health in Moldova is documented in *Who is Paying for Health Care in Europe and Central Asia*. M. Lewis, ECA Region, World Bank, 2000. See Figure 1, p. 18.

Analytic and Advisory Assistance (AAA)

2.12 The Bank was important, but less prominent in **analytic and advisory assistance (AAA)**. The guidance for Moldova's transformation came mostly from four actors. Probably most important was Russia, which provided many examples of programs, processes, and reforms copied by Moldovans. Next were the Bretton Woods institutions, which provided the majority of financial support as well as substantial advisory services. Third was a loose association of United States Agency for International Development (USAID) and the Soros Foundation, particularly focused on agrarian reform. Finally, there was the support from European nations and the European Union (EU) itself, although this support was often more important for its financial than non-financial component.

2.13 The Bank's AAA was usually relevant and had an impact on government and donor decisions. The important economic and sector work (ESW), listed in annex A, table 4 for selected ESWs, was usually focused on strategic areas. Equally important, there were few "outliers," studies *not* linked to a strategic objective. Some useful analytical work also accompanied the policy dialogue—particularly during the preparation and negotiation of SAL/SACs—or more informal project mission notes. Also useful were the many cross-country and regional studies (not listed) that illuminated Moldovan issues. The Bank's Quality Assurance Group (QAG) has reviewed several recent ESW tasks, and found that individually they were satisfactory. Nevertheless, when QAG linked them to their impact and dissemination, as well as the share of expenditures spent on ESW, its view was less positive, so it ranked the overall ESW as "marginally satisfactory." QAG points out that ESW was only 16 percent of outlays for project and ESW work, a relatively low ratio compared to Bank-wide and even regional averages. Full ESW expenditures indeed fell over time; they were US$450,000 yearly during 1993–96, before falling during 1997–99 to a third of that, US$150,000. These latter years were the years of the Russian crisis and Moldova's most reform-minded Governments, and the Region spent its resources on designing reforms and the dialogue. This is usually a reasonable trade-off, but (as discussed later) the lack of a CEM and public sector analysis had a high cost.

2.14 Nevertheless, when viewed over a decade, a more positive view arises. The relevance of the studies undertaken, the gradual accretion of pragmatic knowledge of issues confronting the country, and the general quality of the final documents are sound. As noted, the Bank's poverty work has been deemed useful by donors and government, and had a direct impact on social reforms. Analytical work on transport, Transnistria, environment, and banking all led to greater understanding of sectoral issues. The 1996 Public Expenditure Review was among the first to focus on the growing payment arrears and their impact on the economy. Only a few years later did the IMF accept this diagnosis. A 2003 Public Economic Management Review was also useful, both in underlining the desperate fiscal situation and proposing a series of sensible "nuts and bolts" changes to budgetary processes and fiscal (including social) systems. Its usefulness would have been far greater, however, if it had included the results of Bank education, health, and pension projections and showed the continuing need for strong reform action and very difficult decisions.

2.15 The Bank also used non-budgetary resources to complement effectively more formal work. The Agency for Restructuring and Enterprise Assistance, for example, undertook some private sector surveys and reports with Bank staff assistance that provided good insights into sector issues. The Environmental Plan was also developed with Bank staff inputs, but financed by a variety of donors and Government. The International Finance Corporation (IFC) did a very useful study of the foreign investment climate. All these were circulated widely, especially within the donor community. Other aid donors, nongovernmental organizations (NGOs), and researchers often cited Bank studies to the country assistance evaluation (CAE) mission. The dissemination of the reports was good. The first CEM was published as a book, as were many of the agricultural analyses.

2.16 Beginning with the Bank's first agricultural sector report, and then continuing through surveys, cross-country studies, and dialogue instruments, the Bank's agricultural work was quite professionally done. Many of its conclusions were solid; the Bank's early conclusion that the livestock industry was not viable proved correct; as did its expectation that market forces would ameliorate the impact of the 1997–99 agrarian reform. There were, however, shortcomings in the Bank's AAA in agriculture: the lack of specific advice on how to implement land reform (see para. 3.14) and the recent three-volume agricultural "strategy paper," whose length and detail diffused key policy messages and limited its use to decision-makers.

Aid Coordination

2.17 Overall, the Bank's impact on aid coordination and partnerships has been quite good; partnerships with aid donors, the IMF, and civil society have been largely effective, but aid coordination has been less so, although not for want of trying. With the sole—but very important—exception of agriculture, most sector conclusions by donors stem from Bank economic and sector work. The Bank began—and has followed since—a very close collaboration with the IMF. The Bank supported the Fund's effort to ease the introduction of the Leu. It shared its fiscal work with the IMF, debated the impact of arrears on the fiscal situation in a non-confrontational way, and worked on a joint approach to the difficult development of PRSP documents. An effective Resident Mission in Chisinau was established and soon developed links to NGOs. The Bank's coordination efforts have been so enthusiastic, however, that some NGOs claim less leadership—defined as efforts to control or influence aid emphases—might have produced more results. What is striking about this complaint, however, is that with the exception of USAID it stems from those who have done the least to assist Moldova; other bilateral donors seem more responsive to Bank efforts.

2.18 Nevertheless, the Bank's desire to develop a Consultative Group (CG) for Moldova was unsuccessful. The Bank made frequent efforts to develop a CG, and as late as 2000, the Bank was still hoping to organize one. The country's non-strategic location and lack of natural resources, however, led it to be relatively ignored by donors, although they were not shy in encouraging the Bank to expand its own program. Efforts to marshal co-financing had more success. Many bilateral donors retain only a single external assistance staff in their embassies and use Bank reports, advice, and staff to guide their work. Only USAID and the Soros Foundation have an independent analytical capacity; and UNDP is less prominent in Moldova than in many other countries. One of the Bank's indirect efforts to improve aid coordination showed less success. Moldova, like many FSU countries, was strongly averse to borrowing for technical assistance. As a result, most Bank, and even IDA, projects included bilateral or EU Technical Assistance Program for E. Europe, Caucasus, and Central Asia (TACIS) grants for the technical assistance components. While this had the advantage of ensuring wider understanding of project goals, the technical assistance—often tied to national suppliers—was often of little use. Completion Reports, Bank and Moldovan staff, and independent analyses all confirm that it would have probably been better to use Bank/IDA resources, as well as internationally chosen expertise, for most technical assistance efforts. This flaw, of course, stemmed mostly from Moldovan, not Bank, insistence.

3. The Bank's Development Impact

3.1 A World Bank CAE must ultimately rate three variables; the *outcome* of the Bank's assistance program, the *institutional development impact* of the program, and the *sustainability* of the development effort. The outcome evaluation is based on the Bank's strategic goals in a country, often only a subset of national goals. Since a positive or negative outcome is determined by the joint efforts of many agents in the development effort, outcome evaluation is most assuredly not an evaluation of the Bank's (or Governmental) performance. Nevertheless, since the complex impact of the Bank's effort can affect the outcome, an assessment of that impact is useful. The Bank's impact on Moldova's transition and development is best viewed in two dimensions; its sector impacts and its overall impact.

Sector Impact

3.2 In one sense, the Bank's sector impact seems inversely correlated to its efforts; financial, pension, and trade reforms were encouraged with modest inputs of technical and financial assistance; health, education, energy, and social safety nets required more work for modest success, while agricultural reforms made little progress in spite of much stronger efforts. But this would be a wrong conclusion; the force of the Bank's effort was usually linked to its evaluation—often correct—of the difficulty of the sector reforms.

3.3 The Bank's **financial** sector assistance was initially ancillary to that of the IMF, which led in establishing a Central Bank, independent currency, and capacity to develop and implement monetary programs. Before the Russian crisis of 1998, Bank staff restricted their technical and lending assistance to encouraging the development of pre-export credit and sounder banking practices, the latter through Private Sector Development and agricultural loans; the first provided credit support and technical assistance to selected banks, while the second began the difficult process of creating new, rural credit systems. The Russian crisis, however, led to severe financial distress in the banking system, including some insolvencies. The Bank immediately provided experienced staff to advise the financial authorities and began an effective dialogue that assisted in the cleansing and refloating of insolvent banks, along with processes to ameliorate future distress. A useful banking sector note was developed, but a financial sector loan was deemed unnecessary. Today, Moldova's banking system seems relatively sound, and is slowly expanding—with Bank assistance—into rural areas. Much of this success is owed to continuous and timely IMF and Bank support, but a key factor was likely the professionalism and continuity of key Central Bank staff, especially the Governor. This is one area which avoided the frequent changes that occurred elsewhere in Government, and the results give some idea of the cost of frequent turnovers.

3.4 An early report on external **trade reform**, as well as a special emphasis in the CEM seemed to suffice to encourage rapid trade liberalization. Bank staff carefully followed domestic trade issues, and encouraged privatization/liberalization continuously. Recent retrogressions in external trade have been elements of the Bank-country dialogue. Bank staff were less alert, however, to the massive distortions in trade caused by Transnistria, and may have granted far too much respect to trade data that was, and is, questionable.

3.5 Moldova's demographic profile, when added to fiscal gaps, growing tax arrears, and declining work force, meant **pension reform** was also a high priority. This was another example of where very modest AAA and very limited lending seemed to yield a major impact. Bank staff were crucial for the design of a new pension system as well as new pension legislation and procedures; they also encouraged the virtual end to pension arrears. By 2001, Regional Bank staff judged Moldova's pension reform as among the best of the FSU republics. Unfortunately, this progress paused under the Government elected that year. The Bank agreed to the suspension of the slow increase in retirement age when the authorities agreed to develop a pension approach for rural workers. Given that paid pensions remain only $10-15 a month, the justification for the suspension, medium-term pension fund surpluses, seems weak.

3.6 Lending in **health and education** has so far been modest. The education loan supported reforms in general education (grades 1-9), modernizing and improving the quality of that education by curriculum revision, teacher training, textbook development, and improved testing. In spite of a continued chronic budget problem, the reforms began on schedule; the curriculum was revised, many teachers trained, and textbooks prepared. The Government that took office in 2002 was initially opposed to some of the reforms. Continued engagement with the Bank, however, has reduced its concerns and the quality-linked reforms remain ongoing. The health loan has just begun; its goal is to refocus Moldova's very limited health budget on more preventive and first-tier programs, closing down some costly and unnecessary hospitals for which expenditures crowd out funding for the basic health care of the population. A Health Investment Fund would finance rehabilitation and equipment for the primary centers. The new authorities have been reluctant to formalize the fund. Moreover, they are reluctant to close down many large hospitals; indeed many of the now closed clinics were closed before the Bank's loan was approved. One key problem remains unaddressed. Both sectors suffer from extremely low salaries for staff (US$20-30/month for teachers, doctors, and nurses) with little improvement in sight. Non-salary budgets are miniscule. The very low education and health budgets lead one to expect the social sector reforms may become fiscally unviable.

3.7 **Poverty and social safety** assistance has also had an impact. The Bank's first poverty report, in 1999, was both ambitious and useful. The analysis offered new insights into rural underemployment, the expanding informal economy, the effect of growing corruption on social services, and the nascent emigration by rural Moldovans. While it documented the rapidly expanding poverty, it produced a wealth of policy suggestions that were later made parts of the Bank dialogue and lending program. The Bank's 1996 Public Expenditure Review was also a major input into Bank poverty strategy—since it underlined the inappropriateness of Soviet-era social systems to assist the increasing number of poor. It prompted the Bank to encourage the ending of arrears to pensioners and social sector workers. The 2004 Public Economic Management Review again underlined the need for restructuring social programs. Most donors treat the Bank's poverty-focused AAA as vital to their own work. The SIF may well be the country's best poverty reduction tool; it has rehabilitated many schools, clinics, water systems, and other village infrastructure. It is now so popular that municipalities compete strongly for subprojects. Unfortunately, it, too, is working in a fiscally unviable environment, since ongoing budgetary support for many rehabilitated institutions is scarce.

3.8 The Bank's **agricultural** work has long been intense; one of the first sector reports was in agriculture, its initial lending was for the sector, and many SAL/SAC conditions emphasized agricultural issues. This sector, by far, has produced the most AAA as well as a constant and high-level dialogue. Many of the reports were published; some became linked to regional studies with wider dissemination. The most recent sector study is a three-volume, comprehensive compendium of the sector and its issues.

3.9 This emphasis was appropriate. Moldova's major comparative advantage was in its educated work force and a fertile (if frequently dry) soil. The isolation of Transnistrian industry and the demise of defense companies meant that Moldova's already high dependence on food production increased even more. The Soviet legacy, however, included overstaffed state farms and kolkhoz; poorly maintained vineyards designed to produce quantity, not quality; uneconomic irrigation and livestock systems; and a tradition of accumulating massive arrears to suppliers and government. The centralized production system included extremely costly subsidies, particularly for energy (that affected transport as well as production costs) and fertilizer. In 1991, diesel fuel and electricity cost only 1 percent of the international price; fertilizer prices were only 4 percent of world prices. The adjustment to world prices created a massive shock. Almost equally massive was the "access shock," created by the independence of the Baltic countries, Belarus, Russia, and Ukraine.[6] Not only were these markets in economic decline, they quickly produced major transactions costs and uncertainties that affected Moldova's often perishable exports.

3.10 In spite of these exogenous factors, it was successive government delays in undertaking true agrarian reform that may have contributed most to Moldova's economic malaise. By the time Moldova joined the World Bank, a privatization law had changed the more than 1,200 collectives and state farms into joint stock companies; the Moldovan authorities claimed this "privatized" them. Farm workers (which included pensioners, managers, teachers, health-care workers, etc.) received stock in the form of "equivalent land shares." These, in theory, could be exchanged for particular plots of land and other assets, although in fact the process was complex and difficult. A 1994 amendment made this "land exit" possibility even more difficult, but the Bank strongly intervened with the Government, and a subsequent Supreme Court decision declared the amendment unconstitutional. Few "land exits" were made; by 1996 only 16.4 percent of the agricultural land had been distributed, and 80 percent of this was in small garden plots. The "privatized" collectives deteriorated rapidly, both physically and financially; most workers were unpaid, some farm managers abused their position to personally enrich themselves, and many farms declined to pay their taxes or providers. These arrears finally meant any significant land distribution would saddle land recipients with high proportionate debts as well. Agricultural production continued to fall, as did exports, GDP, and incomes.

---

[6] The disintegration of the old USSR economic space with its inter-connected industrial structure and the imposition of borders has had a profound effect on all FSU countries. The impact of this disintegration has not been well recognized in the Bank's strategic approach to the region until recently.

3.11 Since Moldova's natural comparative advantage in agriculture was inhibited by the inherited kolkhoz/state farm structure, the Bank rightly and continuously emphasized the need for "structural reform" and privatization. This had not been achieved by the joint-stock farm structure introduced by the 1992 land law, but it took some time for donors (including the Bank) to recognize this. It took four years for a methodology for small-scale farm ownership to be developed, together with the political will for further reform. These four lost years had a very heavy cost for Moldova's economy.

3.12 It was not until 1997 that reformist Governments supported a USAID-financed, Soros Foundation-led, and Bank-supported method to divide the collectives into individual plots. The Bank not only strongly supported this approach, it provided the scheme by which the arrears of the collectives could be netted down, swapped, or otherwise resolved. The Bank's cadastre project facilitated rapid land titling. Within two years, most collectives had been divided into thousands of plots (many recipients had three or more, since they received proportionate orchard, vineyard, and grain plots) for pensioners, farm and office workers, and other ancillary associates of the collectives or state farms. The Bank's SACs encouraged the reform and subsequently discouraged any retrogression. Nevertheless, constant debates—over speed, reduction or forgiveness of arrears, methodology, etc.—led to Bank/USAID frictions, some of which still remain.

3.13 While speedy, the 1997–99 reform led to major farm fragmentation; up to six million parcels were created. The average parcel size—well below one hectare—meant they were not viable. This was criticized by the incoming 2001 Government and others, but SAC II and SAC III conditions were instrumental in forestalling Government efforts to reverse the reform. Parcel holders could pool, contract out, lease, or sell their land; both USAID and the Bank hoped the market would consolidate these fragments into viable farms. As of mid-2003, this expectation seemed proven. Over 40 percent of arable land was being farmed in units of over 100 ha.; another 40 percent or more was being farmed in units of 10–100 ha. And there had been a massive emigration—many of Moldova's young, rural workers—out of agriculture with a consequent increase in agricultural labor productivity, albeit from an abysmally low level. This, combined with the decline in livestock production and uneconomic irrigation indicates the country's true comparative advantage seems to be taking hold.

3.14 The Bank's agricultural work was among its most important. It began well, analyzing the agricultural sector, its problems, and probable future capably. The AAA has been detailed; occasionally too detailed. Lengthy crop analyses often masked the key issue of direct foreign investment—without foreign technology, quality control, and marketing acumen, much of Moldova's horticultural and agroindustrial potential would be limited to simple commodity production. Nevertheless, much of the sector work was analytical and useful. With one exception. While the Bank stressed the need for agricultural land reform and the need for an improved "methodology," it never proposed a specific model to apply; it failed to lay out a procedure for rapid implementation of the 1992 law. While a more ambitious reform might not have been undertaken earlier—given the arrears problem, the opposition of conservative, agrarian governments, and rural attitudes—in the absence of a demonstrated model, there was no chance. However, when USAID/Soros *did* develop a comprehensive procedure for more reformist governments, the Bank was quick to support the effort.

3.15 The Bank's most recent sector report in agriculture has been far less useful, but its operational work may have been vital for Moldova's future. Bank agriculture projects particularly complemented the land reform. Besides the Cadastre project, which registered the new parcels, a 1997 project was designed to develop rural savings and loans; it was successful in developing the latter, a follow-on is intended to stimulate rural entrepreneurship as well as strengthen the savings component. SAC III had major conditions affecting agricultural policy, hoping to encourage an open trade policy, market-oriented consolidation of the recent mini-plots, and further privatization of key agroindustries. Not only did SAC III discourage reversion of the land reform, it was useful in either discouraging or limiting non-market efforts to distort Moldova's agriculture. A recent dialogue on export restrictions (e.g., on wheat, oil-seeds, nuts) has been frustrating for both sides, and some agreed privatizations (e.g., wineries) have been deferred. Nevertheless, it is clear the Bank's effort may have been crucial in providing a chance to develop a market-oriented agriculture. Thus, in spite of the flaws—the lack of focus on foreign direct investment, the absence of specific advice on the implementation of land reform, initially poor projects (see para. 2.10) and the tardiness of agrarian reform—which might not have occurred even with a stronger approach—the Bank's work can be viewed as having a distinctly positive impact on agriculture.

3.16 The Bank's analytical and lending efforts in **energy**—sector studies, an energy loan, the dialogue and preparation of the second energy loan, support for privatizing about 70 percent of electricity distribution—have led to distinct improvements in the sector. Energy chaos has ended; Moldovan consumers now have access to a steady supply of gas and electricity. Moreover, they now pay for it. The privatized electricity distribution companies charge (and get paid) for all costs, and the state system has improved its collections. Moldovagas is now financially viable, and the country's gas supply has been stabilized. A major challenge to the partially privatized electricity distribution system by the Court of Accounts—a parliamentary agency—was overcome, primarily because of strong donor (including, most prominently, the Bank) opposition. These are major achievements.

3.17 Nevertheless, Moldova's energy sector is not the fully competitive structure that was envisaged at the onset of the Bank's program. An independent regulator has been established. Competition exists in electricity generation and distribution, and Moldova appears to have maximized the potential competition by allowing consumers (the distribution companies) to negotiate with and buy from the largest possible set of independent power producers: all the region's generating companies. But, a monopoly situation prevails in gas supply, transmission, and distribution. The Bank made no effort to assist Moldova in establishing an arms length commercial relationship between the gas supplier and the gas importer. The independent regulator will likely remain subject to considerable pressure; the Bank will need to continue to take steps to ensure that the regulator acts in an open and transparent manner, given the monopoly situation that prevails in segments of the sector and the political economy situation.[7] As noted earlier during preparation of the first energy project the Bank raised and then dropped a condition for metering gas at the border; subsequently, during project implementation, it discussed with the Government the possibility of adding a metering component, but this component

[7] The Government, in its comments (Annex E), states that it is committed to maintaining the independence of the energy and telecommunications regulatory agencies.

was not added.[8] As a consequence, Moldova has no means of independently verifying the quantity of gas it is importing or transshipping. The Bank's willingness to exclude this condition from the energy project was not well advised. Also, the Bank missed an opportunity to introduce more competition into the sector through an earlier liberalization of the liquefied petroleum gas (LPG) market, a step taken in some other Central European and Baltic states, as in this sector medium-sized importers, bottlers, and distributors can introduce some competition in local markets.

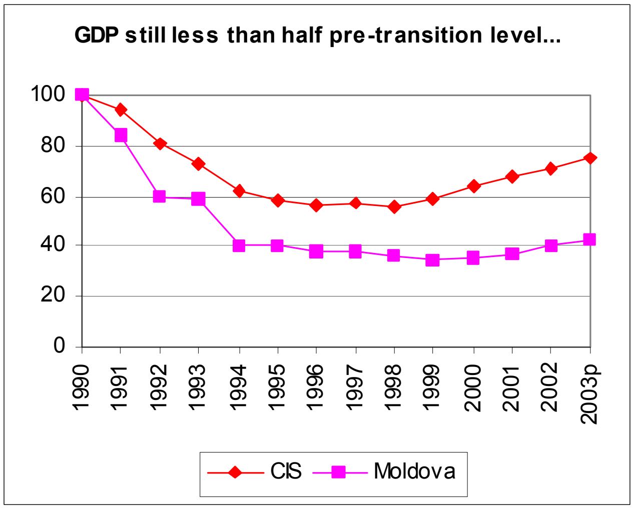
Overall Outcome of Bank Assistance Program

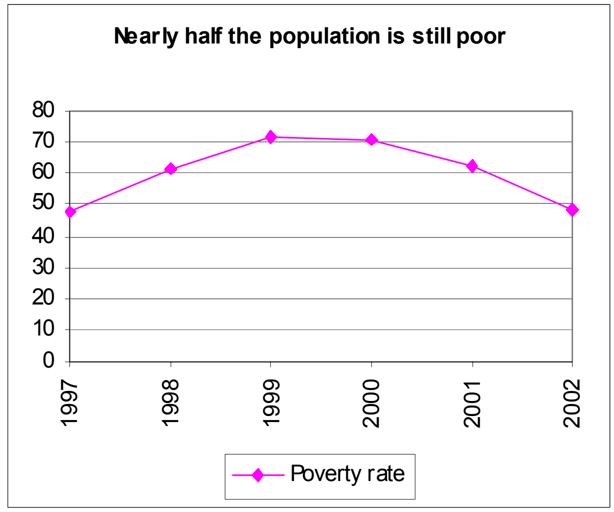
3.18 Based on the criteria of the Bank's assistance program objectives—recovery of self-sustaining growth, development of an efficient, private sector-led market economy, and poverty alleviation—the **outcome** of the Bank's assistance program to support Moldova's 1992–03 development effort must be defined as *unsatisfactory*. (See annex C for a detailed explanation of OED rating methodology.) Moldova was among the last of the FSU economies to return to positive GDP growth; it is now the poorest in Europe, and remains highly indebted, rescheduling debts in an environment of severe payments problems (see table 3.1). While its privatization progress as measured by Bank indices is only slightly below FSU averages, its governance remains weak and opaque. The Government is both reluctant to turn to market-friendly solutions, and has treated some major foreign investors with hostility. It has reversed some privatizations (an airline and pharmaceutical company) and threatened others. Moldova's poverty has led to significant emigration by its poor. It has made little progress towards Millennium Development Goals, and according to recent Bank estimates, while it may achieve the maternal mortality goal, it is unlikely to achieve the poverty, child mortality and HIV/AIDS/TB goals.[9] The SIF is working well, and the education and health loans have had an effect, but the longer-run fiscal viability of the nation's social systems may be limited.

3.19 Moldova was unable to comply with the IMF PRGF and some of the Bank's SAC III conditions. Both have now lapsed. As a result of this, some recent fiscal laxity and erratic privatization policies—which have made private investment coy and multilateral support hesitant—the **sustainability** of its recent economic recovery is *unlikely*. Earlier note was made of the low **institutional development impact** of the Bank's Moldovan projects. Nevertheless, Moldova now has an appropriate legal framework in place, relatively sound financial institutions and has created private ownership systems for land and many other economic sectors. But the nation's social institutions remain weak and fiscally challenged. The country's high level—and worsening—corruption often means the legal framework has few *de facto* implications. All these lead to a conclusion that the institutional impact of the Bank's program has been *modest.*

[8] One of the needed metering stations was later financed and installed with bilateral donor funding.
[9] The Millennium Development Goals in Europe and Central Asia, ECA Region, World Bank, 2003.

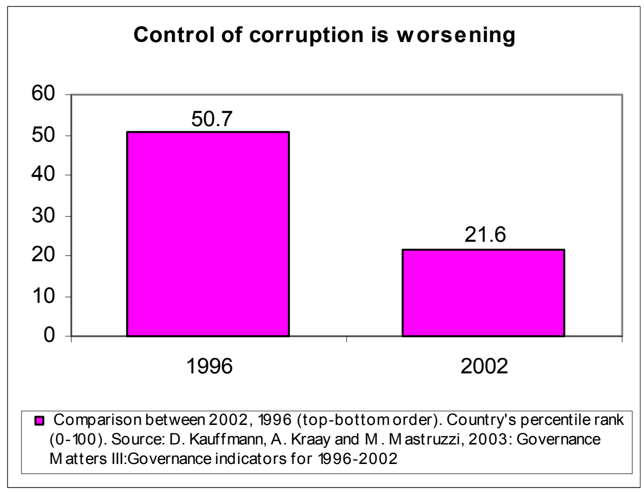
Table 3.1: Development Outcomes in Moldova have been Disappointing[10]

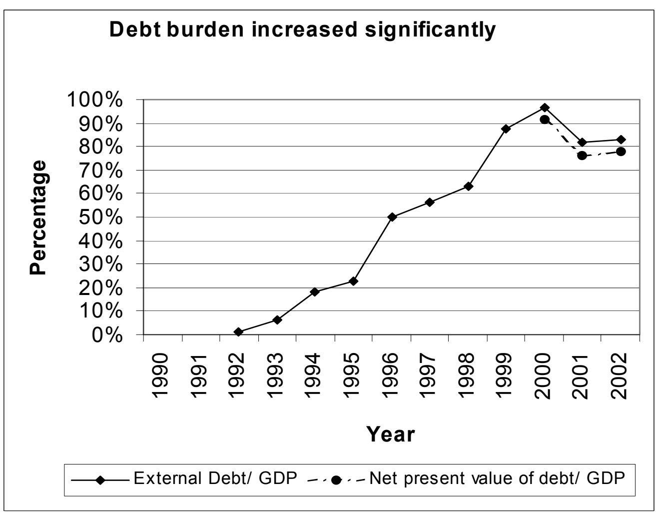


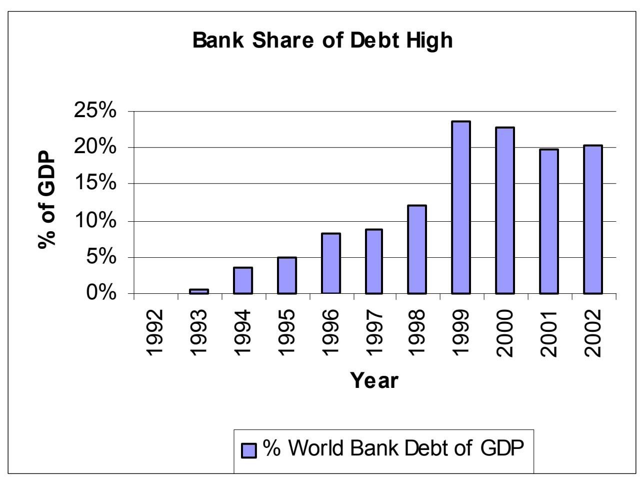


Achieving the Millennium Development Goals will be difficult…			
MDG	**Latest Estimate**	**Goal**	**Success**
1. Poverty	13	3.7	**Unlikely**
2. School enrollment	93.5	100	**Maybe**
3. Equality	92.4	100	**Maybe**
4. Child mortality	23.3	8.3	**Unlikely**
5. Maternal mortality	27.1	11	**Likely**
6. HIV/AIDS/TB	..	..	**Unlikely**
7. Water access	92	96	**Maybe**

Source: The Millennium Development Goals in Europe and Central Asia, ECA, World Bank, 2003.







[10] World Bank data. 2004.

4. Attribution

4.1 The unsatisfactory outcome of the Bank's assistance program for Moldova occurred in spite of a very substantial Bank lending program, a reasonably strong analytical effort that is used by many donors and analysts, and a constant, often intense, dialogue supported by the Resident Mission. While there is no way to specify exactly what the Government, Bank, or other agents might have done to avoid this outcome, it is useful to analyze the approaches that contributed to the result. In retrospect, perhaps the most important factor was an exogenous one; the daunting transition challenge the nation faced. While small economic size can be countered by extreme factor and product flexibility, Moldova's economy was highly inflexible. Moreover, its dependence on declining and volatile FSU markets combined with its sensitivity to climatic variations underlined its vulnerability. This might have been overcome by rapid, virtually "shock" adjustments. But Moldova did almost the opposite, delaying agrarian reform and deferring major institutional and public sector reforms for years.

4.2 As the experience of other FSU economies shows, the transition process for many will likely take more than a generation. Moldova's Governments, until recently, have both changed frequently and been subject to complex coalition pressures. Moreover, in the earlier years the important agrarian party most definitely did not believe in true privatization of agriculture. While many Moldovan citizens and some of their leaders had limited knowledge of market-economy issues, there was usually a group in Government eager to accelerate market-driven reforms. The result of all these factors often led to only a façade of "ownership" of Bank-suggested reforms, and partial or deferred reform actions. Finally, the growing corruption began to affect many governmental actions. The impact on the agricultural and energy sectors has already been mentioned; box 4.1 presents another example in telecommunications where governmental actions produced a counterproductive result.

4.3 The earlier review of the sectoral impact of the Bank's assistance program indicated some areas where the Bank had both favorable and unfavorable impacts. Many actions, however, had little impact on the development outcome. Others, particularly strategic decisions and actions, probably did. As noted, the Bank's strategy and general dialogue was relatively faithful to its announced CASs. Overall lending levels were also broadly consistent with CAS envelopes, but within the proposed overall lending amounts far greater support was provided through adjustment lending (and less through investment lending) than planned in the CAS strategies. During 1993–96, the Bank provided a third of Moldova's net official flows; during 1997–01, IDA provided about a quarter, in spite of growing amortization and interest obligations from prior loans.

4.4 One aspect of the Bank's performance that contributed negatively to the outcomes of the Bank's assistance program was an overly optimistic view of Moldova's transition speed (and an underestimation of the challenges it faced), which also characterized Bank performance in some other FSU countries. Bank staff initially expected the transition process to be completed in about five years.[11] In particular, the impact of the deferred land reform was not understood. The Bank lent substantial IBRD sums to a country with

---

[11] The IMF also shared this optimistic view, usually expecting growth to return in a few years.

declining creditworthiness. As noted, the Bank's financial support was large by Moldovan terms; until FY00, it was also large in global comparative terms, even when "small country bias" is discounted (see table 4.1).

Table 4.1: Per Capita Commitments, IBRD and IDA (in US$)

	IBRD 1993–98	*IDA 1998–2000*	*IDA 2001-2003*
Moldova	82	26	6
CIS Countries	60	3	8
Small Countries	38	21	14

Note: "Small countries" defined as those with population of 2–6 million.

4.5 The Bank's performance over the past decade is best viewed in three time slices; the initial period up to the mid-1990s, then the period up to 2001, and the decisions confronting the new Government and the Bank in that year. As in all the FSU countries, the Bank's initial macroeconomic outlook was very positive; in 1993—in spite of adverse terms of trade prospects and a recent ethnic/regional dispute—the Bank projected output expansion to return by 1995 and "full creditworthiness" in four to five years. The initial approach, to combine program loans only with dialogue and not formal policy conditions (drought, rehabilitation loans) was appropriate. Not only did it support the IMF's lead in

Box 4.1: How Not to Privatize

Since they have large cash flows, temporary natural monopolies, and good growth potential, transition and developing countries have often used telephone privatization to begin public service transformations. The World Bank and IFC know the industry well, have extensive privatization experience, and have developed some effective approaches and regulatory frameworks to encourage bids and subsequent good management by responsible firms. Yet, in spite of Bank and IFC assistance, Moldova has handled its telephone privatization poorly. This is, unfortunately, not unique in Moldova.

Moldova's MoldTelecom (MTC) is small (600,000 lines), its equipment is deteriorating and its rates are among the lowest in the world. The decision to privatize in 1999 was taken after a cellular telephone franchise was issued to a consortium that included IFC. Another franchise was sold—in an extremely nontransparent manner—in 2001. MTC's poor service has encouraged cellular service; by end-2002 there were about 200,000 cellular telephones, and growth continues strong.

The privatization process included framework legislation, establishment of a regulatory agency, and retention of an advisory firm. Able and experienced Bank staff have also been involved. The legislation has long been passed, but the regulations to back it up are still pending. The regulatory agency was established, but seems driven by MTC and governmental priorities; in particular, the Government has repeatedly directed agency decisions in spite of legislation to the contrary. A reputable advisor was chosen, but then ignored. Not only has no new executive been appointed to push the privatization process, MTC continues to expand its network, a process that deters bidders who prefer to design their own expansion. The tariffs have yet to be adjusted (in spite of a SAC III condition), there is no data bank on MTC's assets, no new corporate structure, no cleansing of its balance sheet.

Nevertheless, the Government has received two purchase offers; the first one before the process was underway (which was rejected), the second by the Moscow telephone company after the exclusion of the only other pre-qualified bidder. This offer of US$20 million, less than one year's MTC profit, was also rejected.

Telecom privatization has been supported by both the IMF (which made it an implicit requirement for an ongoing PRGF) and IDA (with complementary reforms in SAC III). The country's interim poverty reduction strategy emphasized an open and transparent privatization of the telecommunications sector. Nevertheless, three years later MTC's actual assets and legal structure remain uncertain, the regulatory framework seems perverse, and the tariff structure is among the worst in the world. Bank staff assisting the process were not provided copies of the sales memorandum, pre-qualification criteria, exclusion criteria, or purchase offer. And two unaccepted bids were produced in very nontransparent environments. It is difficult to believe a serious telephone operator would be interested in acquiring MTC.

macroeconomic stabilization, it gave the Bank time to evaluate issues, develop pragmatic proposals, and establish an effective dialogue on policy reform. Of course, this—as well as many subsequent program loans—also provided budgetary support, and it would have been useful if Bank documents had clarified this point The first SAL was well-designed. The deferral of social sector interventions also was appropriate, given the government's incapacity. And the immiseration of the country as well as the Bank's growing understanding of Moldova's social institutions led to a shift in emphasis—from direct education, health, and social protection interventions to major reforms of the inappropriate and poorly targeted, unsustainable social systems—to address poverty alleviation issues.

4.6 By 1995–96, however, it should have been clearer to the Bank that Moldova's transition would be both more lengthy and chaotic than expected. This is the point where an overly optimistic view of Moldova's prospects, stemming in part from an underestimation of the effect of political economy issues, importantly affected program outcomes. The Bank's strategy in the mid-1990s mentioned numerous risks and obstacles to economic progress. It noted e.g., the build-up of arrears, the fragile macroeconomic stability, the financial crisis in the energy sector, and the upcoming presidential elections which suggest that there might be less consensus [on reform] in the immediate future. The Bank's strategy also acknowledged that it would be difficult to predict how and when the private sector would respond to the new policy framework, yet the macroeconomic projections assumed that the reforms and the economy's response would be almost immediate. Robust growth was projected for 1996 and thereafter. One year later, Moldova was granted IDA eligibility. In the IDA eligibility paper, the Region stated that growth will be slow and the resumption of living standards delayed even under a scenario of continued progress on the reform agenda. Later in 1997, the largest SAL/SAC was made. It was designed to support a reformist government and embodied an appropriate reform agenda; however an underestimation of Moldova's complex political situation,[12] and reform implementation capacity, as well as optimistic macroeconomic projections,[13] led to a significant IBRD component, even though

[12] Moldova's difficult political situation and its impact on economic reform was known at the time. See Oxford Analytica (July 1, 1997) which concludes "There is no clear sign of an upturn in industrial activity in the short term. Economic policy looks set to be a prominent and divisive parliamentary election issue. Both the approach of elections and ongoing problems over Transnistria will continue to hamper greater economic reform progress." It also notes that the political situation would likely deter foreign investment, which was a key factor in assuring improving creditworthiness in the Bank's macroeconomic projections.

[13] The ECA region states "it was not clear in the mid-1990s with the information available at the time that the recession in Moldova would continue through the end of the decade. None of the IFIs nor independent forecasters ventured that hypothesis at that time and a negative assessment based on hindsight is inappropriate. Furthermore, instead of being negative through the end of the decade, GDP growth indeed turned positive in 1997 before being completely derailed in 1998 and 1999 because of the Russian financial crisis, an exogenous event from the Moldovan perspective." OED notes that, at the time of the SAL/SAC, outside observers had a more modest view of Moldova's prospects. The EIU (Quarter II, 1997 Report on Moldova—the quarter prior to the approval of the SAL/SAC) was "pessimistic about the country's [Moldova's] prospect this year." The fourth quarter EIU report (1997) stated that "the outlook for the Moldovan economy remains uninspiring." The table below compares growth projections:

	1998	*1999*
World Bank (1997)	3.0%	4.5%
EIU Forecasts (1997)	1.0%	2.0%

Moldova's creditworthiness was marginal. Moldova's GDP touched bottom in 1999 and the final IBRD tranche was cancelled. Only then was a candid CAS produced that stressed the bleak prospects of the country. This prognosis might have been available earlier—and the dialogue and Bank approach revised—if a full CEM had been undertaken in the latter half of the 1990s.

4.7 While the various SAL/SACs and assistance strategies during the mid-to-late 1990s updated the Bank's knowledge of the economic situation, they obviously had different agendas than that of the usual CEM. The economic projections in the SALs reflected the optimism stemming from agreement on a reform program. A CEM would have permitted the Bank to analyze and lay out clearly for the Government the fundamental reasons for Moldova's economic decline, as well as the implications of reform deferral.[14] Deferred macro/public sector work had other costs. There was no detailed review of public sector issues nor governance issues between the 1996 PER and the expenditure management report completed in 2003. Since public sector reform was underlined in various CASs, the omission probably affected Bank comprehension, particularly the impact of expanding corruption.

4.8 The third phase of Bank relations stemmed from the 2001 election. The newly-elected Government had campaigned strongly against major elements of the Bretton Woods-supported reforms. It promised a reversion of some important privatizations and was particularly eager to reverse the recent agrarian reform. Many of its proposed economic policies depended on *dirigiste* actions. Moreover, the Government party had won a majority of votes and (unlike prior coalition Governments) had a commanding majority in Parliament; it could clearly claim a mandate for its platform. Nevertheless, the IMF and the Bank decided to both engage the new Government and then support its proposed program with a PRGF/SAC program.

4.9 In the event, the Government was unable to comply with important PRGF conditions; SAC III tranche conditions were equally deferred, and both programs lapsed in late 2003. Moreover, the move to a "final" PRSP from an interim one has proven to be difficult; this would be required for the Bank to consider a new Country Assistance Strategy paper, which in turn would be required for new adjustment operations. As noted earlier, the Government—while often espousing market-based policies—has indeed undertaken some interventions inconsistent with these views. And it has indeed reversed some privatizations while declining to pursue new ones aggressively. Yet it is striking

[14] The ECA region states that while it is true that the Bank did not undertake a formal CEM in the mid-to-late1990s from which it could have benefited, it is not clear that this would have resulted in a significantly better understanding of the extent and reasons for the decline of the Moldovan economy and the implications of the deferral of reform. It also notes that after 1997 the Bank team was aware of the difficult prospects facing the country and it is inappropriate for the CAE to suggest that they moved forward with lending based on ignorance of the underlying realities. OED, as outlined in para. 2.13, notes that specific pieces of analytical work were undertaken in conjunction with adjustment lending, but these are inadequate substitutes for undertaking comprehensive economic and analytical work in the form of ESW. An internal assessment commenting on the period of the last assistance strategy shares OED's view. While recognizing that the Bank undertook a number of *ad hoc* sectoral policy tasks and a significant amount of analytical work to support the preparation of the Structural Adjustment Credit (SAC III), which were useful and of good quality, this was not a sufficient response to the needs of convincing a government, which was at best a reluctant reformer.

that everyone consulted by the CAE mission—the Government, prior governmental leaders, NGOs, businessmen, other donors—believed the decision of the Fund and Bank to remain engaged was a correct one. Without that engagement, many believed the still-fragile recovery might have faltered; the Government might have taken more damaging actions; and the slow recovery of institutional capacity might have been reversed. Even those opposed to the present Government agree that the engagement has assisted Moldova in both avoiding retrogressive steps while the prior reforms take effect.

4.10 The decision to engage was presented to the Board (and hence to the public) in 2002 in the SAC III documents and a complementary CAS 'Progress Report.' The Progress Report and the accompanying SAC III claimed the credit would finance the reforms outlined in an earlier interim poverty reduction strategy. It noted the Government had recently approved an updated version of the poverty strategy but gave no details. In fact the poverty strategy reflected the views of the previous Government, not that of the new Government. Many SAC goals may have been agreed in the hard negotiations, but their inclusion conveyed an impression of Government commitment. One of the major components of the SAC was to improve the business climate. Another was to continue the pension reform the Communist Party had opposed. While only some elements of the pension reform were deferred (see para. 3.5), the business climate remains poor. The economic projections in the Progress Report found improving creditworthiness even in the "lower case" projection. The Government, it was claimed, would take action to continue to liberalize the agriculture sector. Not surprisingly, this has not occurred. It was (and is) clear to Bank staff and managers that the ownership of SAC III by Government was minimal but the SAC III/CAS Progress Report gave the opposite impression. A chance to candidly admit that Moldova's reform program would now be not only in doubt, but possibly reversed, had been lost.

4.11 Regarding project lending, the Bank's strategic decisions were much more justified. The decision to defer infrastructure lending—now underway—and concentrate on social sectors and safety net provision was sound, and encouraged other donors to follow. Moldova's highways, railways, and urban infrastructure are not in sound shape, but they are relatively serviceable while the social systems remain greatly stressed. While most proposed projects were ultimately made, some deviations seem justified. No financial sector operation was needed, and the deferral of Energy II was wise. The Public Sector Reform loans, scheduled for FY00 and FY01 in the 1999 CAS raise a different issue. These were deferred in the 2002 CAS Progress Report until FY03; the first may be made in FY04. Given the importance of these reforms, this deferral is significant though probably justified, given the government's lukewarm commitment. But the weakness of the reformist governments—and their likely replacement by the opposition in the pending elections—should have been known when the 1999 CAS was written.

4.12 In summary, it is clear that the failure of successive governments to implement reforms and exogenous events (Moldova's extremely difficult initial conditions, climatic factors and the Russia crisis of 1998) were major factors in the unsatisfactory outcome of the Bank's assistance program in Moldova; however, the Bank's program also had some shortcomings. While the Bank throughout the period supported an appropriate reform agenda in most sectors and efforts were made to support reformist governments when they were in power, the Bank's assistance program did not adequately reflect Moldova's complex political situation, ignored corruption problems until too late and was based on optimistic macroeconomic projections. Optimism lessened pressure for immediate and major reforms. Cognizant of the difficulties newly-democratic institutions faced and aware of the challenges confronting forward-looking leaders, Bank managers often rewarded partial or deferred results with lending. While this can be a reasonable strategy in a normal situation, it was not helpful in Moldova, even though the Bank was under considerable pressure from its major shareholders to lend. In retrospect a preferable Bank strategy would have been one that emphasized—particularly during 1994–97—Moldova's extremely difficult transition problems more strongly, stressed the need for concessionary support, lent less IBRD, and insisted that reform commitments be implemented, not delayed or partially completed.

5. Lessons and Recommendations

5.1 The first lesson from Moldova's experience, which is confirmed by evaluations of country programs generally, is the importance of ownership. While the Bank's experience with Moldova underlines the value of continued engagement, it also underlines (i) the need to take periodic candid, overall looks at a country's problems and prospects with a robust analysis of risks, (ii) the value in admitting disagreements on major policies, proceeding only with selected investment loans and a dialogue, and allowing Governments to proceed with policies they "own;" and (iii) the lengthy and chaotic process required by many command economies to transform into market ones.

5.2 A second lesson affects governance. Moldova's corruption is not unique, but has worsened. Privatization deferrals were often caused by the "rent" passed to vested interests. And some privatized firms—airlines, pharmaceutical companies—are being driven out of business. Successful new firms that challenge vested interests are either discouraged or otherwise discriminated against. The result has been a bad climate for economic transformation by new, private companies. By not directly confronting this issue until very recently, the Bank did Moldova no favors. A candid expression of the Bank's position on governance issues is likely to lead to better outcomes than ambiguous statements. Projects can be designed to confront corruption; and non-acceptance of key conditions can be linked to cancellation of the IDA allocated to the project.

5.3 The final lesson is the importance of quickly addressing viability of social programs in middle-income countries suffering massive falls in income—be it from wars, natural disasters, or transition to new economic paradigms. The Bank correctly assessed the need for major restructuring of Moldova's social programs, but found it difficult to convince the authorities to undertake the drastic steps needed for their viability. This is understandable as countries in such situation find it politically difficult to undertake the severe rationalization required to maintain viable public social programs that at least can serve the poorest. Nevertheless, unless some major or innovative approach is applied—use of NGOs, user fees, means-testing, closure of lesser priority institutions—countries like Moldova may find their capacity to sustain and improve public social services in continuous decline.

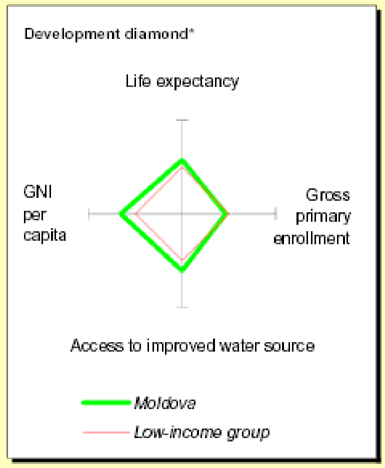
5.4 The Report recommends:

- Undertaking a Country Economic Memorandum or a Development Policy Review to analyze and prioritize key development priorities, including governance issues, especially in the energy and social sectors, and factors constraining the investment climate.
- Avoid further adjustment lending until a stronger Government commitment to reform is evidenced.
- Focus project interventions in the social sectors and take concrete steps in each lending operation to guard against corruption and use civil society to monitor effectiveness.

Moldova at a glance

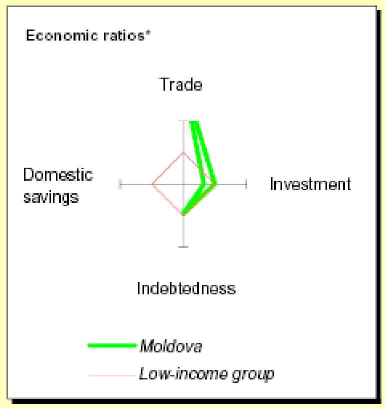
9/15/04

POVERTY and SOCIAL	Moldova	Europe & Central Asia	Low-income
2003			
Population, mid-year *(millions)*	4.2	473	2,310
GNI per capita *(Atlas method, US$)*	590	2,570	450
GNI *(Atlas method, US$ billions)*	2.5	1,217	1,038
Average annual growth, 1997-03			
Population *(%)*	-0.3	0.0	1.9
Labor force *(%)*	0.2	0.2	2.3
Most recent estimate (latest year available, 1997-03)			
Poverty *(% of population below national poverty line)*	23	..	..
Urban population *(% of total population)*	46	63	30
Life expectancy at birth *(years)*	67	69	58
Infant mortality *(per 1,000 live births)*	27	31	82
Child malnutrition *(% of children under 5)*	..	..	44
Access to an improved water source *(% of population)*	92	91	75
Illiteracy *(% of population age 15+)*	1	3	39
Gross primary enrollment *(% of school-age population)*	85	103	92
Male	86	104	99
Female	85	102	85

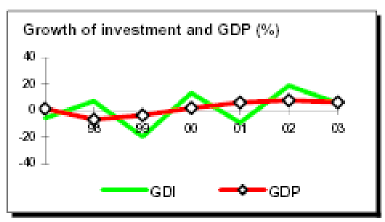

Development diamond*

KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1983	1993	2002	2003
GDP *(US$ billions)*	..	2.4	1.7	2.0
Gross domestic investment/GDP	..	55.8	21.7	21.7
Exports of goods and services/GDP	..	39.3	52.3	53.7
Gross domestic savings/GDP	..	39.8	-3.4	-12.3
Gross national savings/GDP	..	40.7	14.1	11.5
Current account balance/GDP	..	-7.7	-5.6	-9.2
Interest payments/GDP	..	0.0	2.5	1.7
Total debt/GDP	..	11.7	80.0	75.8
Total debt service/exports	..	0.4	20.8	10.2
Present value of debt/GDP	..	..	74.3	..
Present value of debt/exports	..	..	111.3	..

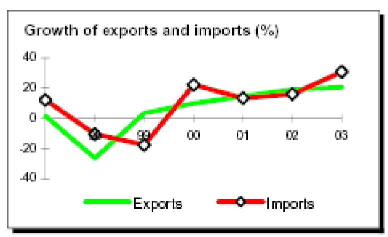
	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	-3.3	-1.8	7.8	6.3	4.0
GDP per capita	-3.9	-1.6	8.2	6.7	5.1
Exports of goods and services	..	5.7	19.1	20.6	6.3


Economic ratios*

STRUCTURE of the ECONOMY	1983	1993	2002	2003
(% of GDP)				
Agriculture	..	32.5	24.1	22.5
Industry	..	44.0	23.2	24.7
Manufacturing	..	36.0	17.0	18.4
Services	..	23.5	52.7	52.8
Private consumption	..	44.3	87.4	94.6
General government consumption	..	15.9	16.1	17.7
Imports of goods and services	..	55.4	77.4	87.6


Growth of investment and GDP (%)

	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	..	-2.6	3.7	-9.9
Industry	..	-6.1	3.9	13.4
Manufacturing	..	0.5	2.6	12.8
Services	..	1.5	7.4	9.5
Private consumption	..	7.5	4.7	19.1
General government consumption	..	-7.5	21.0	20.4
Gross domestic investment	..	-6.8	19.0	5.8
Imports of goods and services	..	8.9	16.1	30.9


Growth of exports and imports (%)

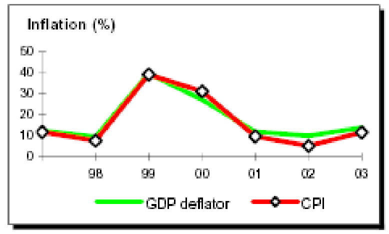
Note: 2003 data are preliminary estimates.

This table was produced from the Development Economics central database.

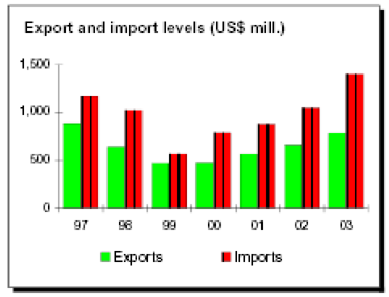
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Moldova

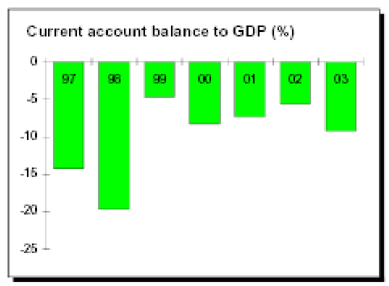
PRICES and GOVERNMENT FINANCE	1983	1993	2002	2003
Domestic prices				
(% change)				
Consumer prices	..	788.5	5.3	11.7
Implicit GDP deflator	..	860.5	10.0	13.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	26.8	29.5	31.1
Current budget balance	..	-4.1	0.7	1.4
Overall surplus/deficit	..	-9.0	-1.8	0.4



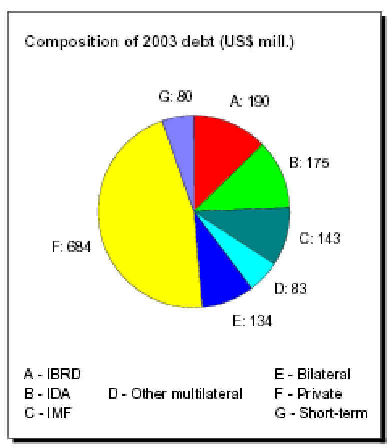
TRADE	1983	1993	2002	2003
(US$ millions)				
Total exports (fob)	..	451	666	790
Live animals and animal products	..	26	39	29
Vegetable products	..	22	106	120
Manufactures	..	100	135	197
Total imports (cif)	..	631	1,052	1,403
Food	..	39	44	82
Fuel and energy	..	279	218	233
Capital goods	..	33	147	214
Export price index *(1995=100)*	..	..	91	93
Import price index *(1995=100)*	..	..	106	113
Terms of trade *(1995=100)*	..	..	85	82



BALANCE of PAYMENTS	1983	1993	2002	2003
(US$ millions)				
Exports of goods and services	..	501	870	1,054
Imports of goods and services	..	705	1,287	1,720
Resource balance	..	-204	-417	-666
Net income	..	0	151	323
Net current transfers	..	..	140	144
Current account balance	..	-182	-93	-181
Financing items (net)	..	169	115	214
Changes in net reserves	..	13	-22	-33
Memo:				
Reserves including gold *(US$ millions)*	..	..	269	302
Conversion rate *(DEC, local/US$)*	..	0.8	13.6	13.9



EXTERNAL DEBT and RESOURCE FLOWS	1983	1993	2002	2003
(US$ millions)				
Total debt outstanding and disbursed	..	278	1,329	1,489
IBRD	..	28	186	190
IDA	..	0	145	175
Total debt service	..	2	231	148
IBRD	..	0	17	18
IDA	..	0	1	1
Composition of net resource flows				
Official grants	..	18	31	..
Official creditors	..	65	-5	-17
Private creditors	..	0	-36	33
Foreign direct investment	..	0	111	..
Portfolio equity	..	0	2	..
World Bank program				
Commitments	..	86	41	54
Disbursements	..	29	26	18
Principal repayments	..	0	9	11
Net flows	..	29	18	7
Interest payments	..	0	9	8
Net transfers	..	28	9	-1



The World Bank Group: This table was prepared by country unit staff; figures may differ from other World Bank published data. 9/15/04

Annex Table 2: Moldova - Key Economic and Social Indicators, 1990-2002

Series Name	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	*Average Period 1990-2002* Moldova	Armenia	Georgia	Kyrgyz Rep.	Lao PDR	ECA	Low Income
GDP growth (annual %)	-2.4	-16.0	-29.1	-1.2	-30.9	-1.4	-5.9	1.6	-6.5	-3.4	2.1	6.1	7.2	-7.1	0.4	-4.4	-2.2	6.3	0.0	0.0
GNI per capita, Atlas method (current US$)	2,260	1,450	980	910	700	820	650	590	470	410	390	400	460	806.9	613.6	600.9	340.9	302.3	2,120.8	403.8
GNI per capita, PPP (current international $)	3,090	2,660	1,960	1,970	1,390	1,420	1,350	1,370	1,280	1,270	1,340	1,440	1,560	1,700.0	2,065.4	2,035.4	1,448.5	1,226.9	5,736.9	1,633.1
GDP per capita (constant 1995 US$)	1,769	1,486	1,056	1,044	721	713	673	686	643	623	638	678	729	881.6	1,094.0	546.3	429.7	391.3	2,233.3	423.7
GDP per capita growth (annual %)	-2.7	-16.0	-29.0	-1.1	-30.9	-1.2	-5.6	2.0	-6.3	-3.1	2.3	6.3	7.6	-6.9	1.7	-4.0	-3.2	3.8	0.0	0.0
Agriculture, value added (% of GDP)	30.7	42.7	50.9	32.5	29.2	33.0	31.4	30.2	30.5	27.9	29.0	26.0	25.1	32.3	32.6	35.3	40.0	55.7	11.9	27.1
Manufacturing, value added (% of GDP)	..	..	..	36.0	30.9	25.7	24.0	21.3	16.5	14.7	16.3	18.2	18.2	22.2	26.4	19.5	16.1	14.7	0.0	16.8
Services, etc., value added (% of GDP)	29.8	23.9	17.6	23.5	32.4	34.8	37.9	40.8	46.1	49.4	49.2	49.8	50.7	37.4	31.4	40.8	32.3	24.5	51.0	42.8
Exports of goods and services (% of GDP)	48.9	32.4	89.4	39.3	55.8	59.9	55.3	54.8	46.7	52.5	50.0	50.0	49.3	52.6	29.8	28.5	35.5	21.5	33.2	21.1
Imports of goods and services (% of GDP)	51.3	34.0	93.3	55.4	64.4	70.4	73.9	74.3	72.3	69.4	75.4	74.4	74.4	67.9	55.6	48.7	46.3	35.0	32.8	22.5
Current account balance (% of GDP)	..	..	..	..	-3.0	-2.7	-11.3	-14.2	-19.7	-5.4	-8.1	-6.2	-8.8	-8.8	-12.7	-8.7	-10.4	-5.9	0.0	0.0
Total debt service (% of exports of goods and services)	..	..	..	..	2.1	7.9	8.2	11.2	21.7	28.9	16.8	19.3	..	14.5	6.8	11.6	15.4	6.9	15.8	20.4
External debt (% of GNI)	..	..	1.4	6.2	18.6	22.7	48.4	54.8	61.7	85.6	92.2	76.8	..	46.8	31.7	46.7	73.4	157.9	38.4	56.2
Gross international reserves in months of imports	..	..	..	..	2.8	3.0	2.9	2.9	1.3	2.5	2.5	2.2	2.4	2.5	2.9	1.4	2.7	2.0	3.8	4.7
Current revenue, excluding grants (% of GDP)	..	..	..	..	..	28.4	23.7	29.4	30.2	24.0	24.5	21.3	..	25.9	..	0.0	0.0	0.0	0.0	0.0
Expenditure, total (% of GDP)	..	..	..	..	..	35.7	28.4	41.6	35.9	29.7	29.6	22.8	..	32.0	..	0.0	0.0	0.0	0.0	0.0
Gross domestic savings (% of GDP)	22.9	27.4	55.9	39.8	20.3	14.4	5.6	4.3	0.3	6.0	-1.4	-4.4	-4.9	14.3	-4.7	-4.5	7.3	11.4	24.3	20.7
Inflation, consumer prices (annual %)	..	..	..	..	..	12.1	20.9	8.0	6.6	45.9	31.3	9.8	5.1	17.5	575.9	30.8	18.5	30.4	0.0	0.0
Illiteracy rate, adult total (% of people ages 15 and above)	2.5	2.4	2.2	2.0	1.9	1.7	1.6	1.5	1.4	1.3	1.1	1.0	1.0	1.7	1.9	0.0	0.0	38.5	3.1	42.1
Immunization, DPT (% of children under 12 months)	..	..	..	..	..	..	..	..	..	..	..	90.0	..	90.0	88.3	76.5	89.6	41.7	87.9	59.9
Improved water source (% of population with access)	..	..	..	..	..	..	..	..	..	..	92.0	..	..	92.0	..	0.0	0.0	0.0	0.0	0.0
Life expectancy at birth, total (years)	68.3	67.6	67.8	67.4	66.0	65.7	66.6	66.5	66.5	67.8	67.5	67.2	67.0	67.1	72.8	72.8	66.8	52.4	68.5	58.2
Mortality rate, infant (per 1,000 live births)	30.0	..	29.6	..	..	29.0	..	28.2	..	..	27.0	27.0	..	28.5	40.7	24.0	60.8	102.5	32.5	84.7
Improved sanitation facilities (% of population with access)	..	..	..	..	..	..	..	..	..	..	99.0	..	..	99.0	..	0.0	0.0	0.0	0.0	0.0
School enrollment, primary (% gross)	93.1	93.2	92.1	91.3	95.6	95.5	97.4	..	..	..	83.8	..	..	92.7	89.5	91.2	107.1	110.2	98.7	91.1
School enrollment, secondary (% gross)	80.0	77.0	74.9	84.0	82.3	80.9	80.5	..	..	..	71.2	..	..	78.9	85.5	78.9	88.6	28.9	83.9	38.2
Urban population (% of total)	46.9	46.4	45.9	45.5	45.0	44.5	43.9	43.3	42.7	42.2	41.6	41.7	41.8	43.9	67.2	55.9	35.8	17.7	63.1	28.1
Population, total	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	3.3	5.3	4.7	4.8	473.0	2,230.0
Population growth (annual %)	0.0	-0.2	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.4	-0.4	-0.2	-1.3	-0.4	1.0	2.5	0.2	2.0

Source: World Bank data as of January 22, 2004.

Annex Table 3: External Assistance to Moldova

I. Average Net Receipts from All Donors for CY1992–2001, (US$ million)

Donors	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*Total 1993-1996*	*Total 1993-2001*	*Average 1993-1996*	*Average 1997-2001*	*% of Total Net Receipts, 1993-1996*	*% of Total Net Receipts, 1997-2001*
Bilateral	31	50	38	34	37	40	195	74	78	153	424	38	85	36	55
Multilateral	29	131	67	40	75	44	104	52	39	266	315	67	63	63	41
of which IBRD/IDA	29	67	50	..	40	28	70	31	11	146	180	49	36	46	23
Other Bilateral Donors (Non OECD)	..	..	..	..	5	5	5	9	4	..	27	..	5	..	4
Total	61	182	105	74	118	90	304	136	122	421	770	105	154	100	100
Memo item:															
GDP (current US$ million)	4463	2722	3093	1695	1930	1699	1171	1289	1478	11974	7567	2993	1513		
Total net receipts as % of GDP	1	7	3	4	6	5	26	11	8	4	10				

Source: Geographical Distribution of Financial Flows to Aid Recipients, OECD, web site as of May 15, 2003.
World Bank data as of January 2003.

II. World Bank Commitments by Sectors for FY1993–2002, (US$ million)

Fiscal Year / *Sector Board*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2001*	*2002*	*2003*	*Total*	*% of Overall Commitment*
Program Loans	26.0	60.0	60.0			100.0	40		35		321.0	61
Energy				10.0							10.0	2
Social Sectors					16.8	5.0	26.1	10.0		5.5	63.4	12
Private Sector Development			30.0	35.0	9.0						74.0	14
Rural Sector				10.00		20.9			10.5		41.4	8
Infrastructure (Transport and Water)										19.2	19.2	4
Overall Commitment	26.0	60.0	90.0	55.0	25.8	125.9	66.1`	10.0	45.5	24.7	529	100

Source: World Bank data as of January 27, 2003.

Annex Table 4. Moldova: Selected Economic and Sector Work

	Date	*Report No.*
CASs		
Moldova – Country Assistance Strategy	04/07/99	18896
Moldova – Country Assistance Strategy Progress Report	05/24/02	24113
General Economic Reports		
Moldova – Moving to a Market Economy	03/1994	12879
Moldova – Between East and West: A Review of the Foreign Trade and Exchange Regime	07/26/94	13077
Moldova – Economic Review of Transnistria Region	06/30/98	17886
Moldova – Public Expenditure Review	10/09/96	15532
Moldova – Public Economic Management Review	03/24/03	25423
Sector Reports		
Moldova – Agriculture Sector Review	02/21/95	12581
Moldova – Agriculture Policy Update	09/30/96	16052
Moldova – A Diagnostic Review of the Environment for Foreign Investment	04/99	N.A.
Transforming the Old into the New: Lessons of the Moldova ARIA Project	07/02	WPS2866
Moldova – Transport Sector Review (Vols. 1-3)	11/16/95	13891
Social Insurance in the Transition to a Market Economy; Theoretical Issues with Application to Moldova	04/30/96	WPS1588
Moldova – National Environmental Action Plan	08/04/95	-
Poverty Work		
Moldova – Poverty Assessment Technical Papers	10/31/99	19846
Moldova – Poverty Assessment	11/30/99	19926
Cross Country Studies		
Measuring the Incomes of Economies of the FSU	12/31/92	WPS1057
Ownership Structure and Enterprise Restructuring in Six Newly Independent States	02/28/99	WPS2047
Profile of Private and Financial Sector Activities in ECA	09/30/98	18889
Disintegration and Trade Flows; Evidence from the FSU	06/30/00	WPS2378

Note: Some ESW was conduced by research staff and not included in the ECA ESW Budget; nevertheless, it was closely linked to the operational dialogue.
Source: World Bank.

Annex Table 5. Moldova: OED and Regional Supervision Ratings

Table 5a: OED Ratings

Country	*Total Evaluated $m*	*o/w Adjustment $m*	***Outcome*** *% Satisf.*	*% Satisf. Adj.*	***Inst. Dev. Imp.*** *% Substan.*	*% Substan. Adj.*	***Sustainability*** *% Likely*	*% Likely Adj.*
Approvals FY1993–2002								
Bank	79979	44949	84	86	50	46	77	78
ECA	18605	13684	73	74	48	50	78	82
Moldova	**284**	**235**	**75**	**74**	**9**	**0**	**38**	**27**
Armenia	383	245	100	100	25	0	76	76
Georgia	298	198	100	100	52	39	100	100
Kyrgyz Republic	357	292	96	100	39	42	49	42
Lao PDR	103	20	78	0	28	0	28	0

Source: OED ratings data as of September 2002.

Table 5b. Supervision Ratings for Active Projects

Country	*No. of Projects*	*Net commit., $m*	*Projects at risk, %*	*Commitment at risk %*
Bank	1371	95113	19	18
ECA	277	15924	17	19
Moldova	**8**	**118**	**0**	**0**
Armenia	13	221	8	10
Georgia	17	284	18	20
Kyrgyz Republic	13	239	15	21
Lao PDR	11	239	9	7

Source: World Bank data as of January 2003.

Annex Table 6: Moldova: Millennium Development Goals

Indicators	*1990*	*1995*	*1999*	*2000*
1 Eradicate extreme poverty and hunger				
Population below $1 a day (%)	..	11.3	..	..
Poverty gap at $1 a day (%)	..	3	..	..
Percentage share of income or consumption held by poorest 20%	..	5.6	..	..
Prevalence of child malnutrition (% of children under 5)	..	..	..	..
Population below minimum level of dietary energy consumption (%)	..	..	10	..
2 Achieve universal primary education				
Net primary enrollment ratio (% of relevant age group)	..	..	..	..
Percentage of cohort reaching grade 5 (%)	..	..	..	..
Youth literacy rate (% ages 15-24)	99.8	99.8	99.8	99.8
3 Promote gender equality				
Ratio of girls to boys in primary and secondary education (%)	103	98.1	..	..
Ratio of young literate females to males (% ages 15-24)	100	100	100	100
Share of women employed in the nonagricultural sector (%)	..	..	..	..
Proportion of seats held by women in national parliament (%)	2.1	..	..	..
4 Reduce child mortality				
Under 5 mortality rate (per 1,000)	25.2	27.4	22.2	22
Infant mortality rate (per 1,000 live births)	19	21.2	18.2	18.4
Immunization, measles (% of children under 12 months)	..	..	..	..
5 Improve maternal health				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	65	..	..
Births attended by skilled health staff (% of total)	..	..	..	..
6 Combat HIV/AIDS, malaria and other diseases				
Prevalence of HIV, female (% ages 15-24)	..	..	0.1	..
Contraceptive prevalence rate (% of women ages 15-49)	..	73.7	..	..
Number of children orphaned by HIV/AIDS	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	130	..
Tuberculosis cases detected under DOTS (%)	..	..	..	..
7 Ensure environmental sustainability				
Forest area (% of total land area)	9.7	..	..	9.9
Nationally protected areas (% of total land area)	..	1.2	1.4	..
GDP per unit of energy use (PPP $ per kg oil equivalent)	2.1	2.4	3.2	..
CO2 emissions (metric tons per capita)	4.8	2.6	2.2	..
Access to an improved water source (% of population)	..	..	..	100
Access to improved sanitation (% of population)	..	..	..	..
Access to secure tenure (% of population)	..	..	..	..
8 Develop a Global Partnership for Development				
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	106.4	130.2	130.8	164.9
Personal computers (per 1,000 people)	..	2.1	8	14.5
General indicators				
Population	4.4 million	4.3 million	4.3 million	4.3 million
Gross national income ($)	..	3.0 billion	1.5 billion	1.4 billion
GNI per capita ($)	..	820	410	400
Adult literacy rate (% of people ages 15 and over)	97.5	98.3	98.7	98.9
Total fertility rate (births per woman)	2.4	1.9	1.4	1.4
Life expectancy at birth (years)	68.3	65.7	67.8	67.8
Aid (% of GNI)	0.3	2.2	8.9	9
External debt (% of GNI)	1.4	22.7	85	90.6
Investment (% of GDP)	25.2	24.9	22.9	22.2
Trade (% of GDP)	100.1	130.3	118.7	126.5

Source: World Development Indicators database, April 2002.

Annex Table 7. Moldova: Bank/IDA/Credits

Project Name	*Pr. ID*	*Appr Stat*	*Portf Stat*	*Appr FY*	*Latest DO*	*Latest IP*	*Len Instr Type*	*Date, Rev Closng*	*Latest Risk Rating*	*Ln/Cr*	*Lending Instr*	*IBRD Com. Amt $m*	*IDA Com. Amt $m*	*IDA Amt SDR m*	*IBRD/IDA Amt $m*
Program Loans															
Emg Drought Rec	P008559	A	I	1993	HS	HS	I	3/31/1994	Not assigned	35690	Emg Recovery Ln	26.0			26.0
Rehabilitation	P008557	A	I	1994	S	S	A	3/31/1995	Not assigned	36530	Rehabilitation Ln	60.0			60.0
SAL	P008554	A	I	1995	S	S	A	6/30/1996	Low or Negligible Risk	38150	Struct Adjust Ln	60.0			60.0
SAL2	P044147	A	I	1998	S	S	A	12/31/2000	Modest Risk	42290	Struct Adjust Ln	55.0	45.0	33.0	100.0
SAC	P061496	A	I	1999	S	S	A	12/31/2001	Substantial Risk	32561	Struct Adjust Ln		40.0	29.6	40.0
SAC Supplement	P073537	A		2002	N/A	N/A	A		Not assigned		Struct Adjust Ln		5.0	4.0	5.0
SAC 3	P065163	A	A	2002	S	S	A	9/30/2003	Substantial Risk	36670	Struct Adjust Ln		30.0	24.1	30.0
											Total:	**201.0**	**120.0**	**90.7**	**321.0**
Energy															
Energy	P008555	A	I	1996	S	S	I	12/31/2001	Modest Risk	40200	Specific Invest Ln	10.0			10.0
											Total:	**10.0**			**10.0**
Social Sectors															
Health Invst Fund	P051174	A	A	2001	S	S	I	11/30/2005	Modest Risk	34080	Specific Invest Ln		10.0	7.6	10.0
Gen Educ	P008558	A	A	1997	S	S	I	6/30/2003	Substantial Risk	41510	Specific Invest Ln	16.8			16.8
Gen Educ Supplmt	P059947	A		1998	N/A	N/A	I		Not assigned		Specific Invest Ln		5.0	3.5	5.0
Social Invst Fund	P044840	A	A	1999	HS	S	I	11/30/2004	Modest Risk	31700	Specific Invest Ln		15.0	10.9	15.0
Soc Prot	P051173	A	A	1999	S	S	I	3/31/2005	Substantial Risk	32610	Specific Invest Ln		11.1	8.2	11.1
											Total:	**16.8**	**41.1**	**30.2**	**57.9**
Private Sector Devt															
Pre-Export Guar. Fac	P038641	A	I	1995	U	U	I	12/31/2003	High Risk	38510	Finan Intermed Ln	30.0			30.0
Priv Sect Devt	P008561	A	I	1996	S	S	I	6/30/2002	Modest Risk	39770	Finan Intermed Ln	35.0			35.0
Priv Sect Devt 2	P035811	A	A	1997	S	S	I	6/1/2004	Modest Risk	29620	Technical Asst Ln		9.0	6.6	9.0
											Total:	**65.0**	**9.0**	**6.6**	**74.0**
Rural Sector															
First Cadastre	P035771	A	A	1998	S	S	I	2/28/2004	Modest Risk	30610	Specific Invest Ln		15.9	11.5	15.9
Agric I	P008556	A	I	1996	U	S	I	12/31/2001	Substantial Risk	40110	Specific Invest Ln	10.0			10.0
Rural Finance	P035781	A	I	1998	S	S	I	6/30/2001	Substantial Risk	30310	Learning/Innov Ln		5.0	3.7	5.0
Rural Inv & Servs (APL # 1)	P060434	A	A	2002	S	S	I	12/31/2005	Substantial Risk	36680	Adaptable Prog Ln		10.5	8.3	10.5
											Total :	**10.0**	**31.4**	**23.5**	**41.4**
											GRAND TOTAL	**302.8**	**201.5**	**151.0**	**504.3**

Source: World Bank data as of March 2003.

Annex Table 8. Moldova: IDF Trust Funds

Fund	*Fund Name*	*Approved Amt. US$*	*Disbursed Amt. US$*	*Approval Date*	*Activation Date*	*Close Date*	*Status*
TF028883	IDF Moldova Energy Sector Reform	380,000	303,061	11/4/1994	4/8/1995	11/4/1997	Closed
TF028804	IDF Moldova Prep. of Draft Procur. Leg.	90,000	60,000	4/4/1994	5/20/1994	5/11/1996	Closed
TF028588	IDF Moldova Accounting Reform for Enterprises	471,000	469,958	9/26/1995	11/12/1995	10/26/1997	Closed
TF028292	IDF Moldova Design of Real Estate Strategy	195,000	195,000	1/18/1996	3/14/1996	2/27/1998	Closed
TF028284	IDF Moldova Support to Health Sector Reform	367,000	366,250	2/2/1996	7/24/1996	12/31/1998	Closed
TF027516	IDF Moldova Agricultural Statistics System	200,000	0	12/16/1996	2/3/1998	12/31/1998	Closed
TF027235	IDF Moldova Grant for Social Sector Reform	485,000	80,000	5/27/1998	10/19/1998	10/13/2000	Closed
TF021758	IDF Moldova Strengthening Institutional Capacity for Data	450,000	0	12/7/1998	3/19/2001	3/26/2002	Closed
TF027328	IDF Moldova Grant for Regional Network of Social Investment Fund	285,000	0	1/30/2000	7/1/2002	5/31/2003	Active
TF027406	IDF Grant for Moldova Environmental Compliance and Enforcement Capacity Building	361,000	0	11/27/2000	4/17/2001	9/30/2003	Active
	Total	**3,284,000**	**1,474,268**				

Source: World Bank data as of May 13, 2003.

Annex Table 9: Moldova – Senior Management, CY 1992-2003

Year	*Vice President*	*Div.Chief/Country Director*	*Resident Representative*
1992	Wilfried Thalwitz	Russell J. Cheetham	
1993	Wilfried Thalwitz	Basil G. Kavalsky	
1994	Wilfried Thalwitz	Basil G. Kavalsky	
1995	Wilfried Thalwitz	Basil G. Kavalsky	James Parks
1996	Johannes F. Linn	Basil G. Kavalsky	James Parks
1997	Johannes F. Linn	Basil G. Kavalsky	James Parks
1998	Johannes F. Linn	Roger W. Grawe	James Parks
1999	Johannes F. Linn	Roger W. Grawe	James Parks
2000	Johannes F. Linn	Roger W. Grawe	Carlos Elbirt
2001	Johannes F. Linn	Roger W. Grawe	Carlos Elbirt
2002	Johannes F. Linn	Luca Barbone	Carlos Elbirt
2003	Shigeo Katsu	Luca Barbone	Edward K. Brown

People Consulted While Preparing the Moldova CAE

World Bank/IMF Staff

Name	*Position*
Robert Anderson	Former Lead Economist in Chief Economist's Office, ECA Region
Emily Andrews	Former Lead Pension Specialist, ECA Region
Maha Armaly	Cadastre Project Support Team Member
Arup Bannerjee	Former Country Economist, Moldova
Luca Barbone	Country Director, Moldova
Anush Bezhanyan	Task Manager, Social Protection Project, Moldova
Lawrence Bouton	Senior Economist, Moldova
Sonia Bratanovic	Lead Financial Sector Specialist, ECA Region
Harry Broadman	Lead Economist, ECA, PREM
Karen Brooks	Former Agricultural Economist, ECA Region
Csaba Csaki	World Bank Agricultural Expert
Carlos Elbirt	Former Country Manager, Moldova
Victor Gabor	Economist, DEC Data Group
Sandu Ghidririm	Project Officer, Moldova Country Office
Anatol Gobjila	Agricultural Consultant, Moldova Country Office
Wafik Grais	Former Country Division Chief, Moldova
Janiya Hoffman	Country Economist, Moldova
Mark Horton	Former IMF Res. Rep., Moldova
Monika Huppi	Former Task Mgr., Education Project, Moldova
Basil Kavalsky	Former Country Director, Moldova
Honae Kim	Former Agricultural Economist, Moldova
Sergiv Kulyk	Country Program Coordinator, Moldova
Gareth Locksley	Senior Telecommunications Specialist
Suman Mehra	Former Country Program Coordinator, World Bank
Suzanne Mueller	Political Consultant to World Bank
James Parks	Former Res. Rep., Moldova
Brian Pinto	Lead Economist, PREM Network
Ala Pinzari	Operations Officer, Moldova Country Office
Maya Sandu	Economist, Moldova Country Office
M. Helen Sutch	Former Country Economist, Moldova
Peter Thomson	Sector Manager, Energy, ECA Region
Laura Tuck	Sector Director, ESSD, ECA Region
Vladislav Vucetic	Former Lead Energy Specialist, ECA Region
Johathan Walters	Former Country Economist, Moldova
Kadir T. Yurukoglu	Senior Advisor, QAG, World Bank

Moldovans

Anghelina Apóstol	Vice Minister of Labor
Tudor Bajura	Professor, Agrarian University
Arcadie Bargarosie	Exec. Director, Institute for Public Policy; Prior Minister of Economy
Aurelia Bondari	Exec. Director, Agroinform
Gheorghe Cainarean	Extension Officer, Agency for Consultancy and Training in Agriculture
Lilia Carasciuc	Exec. Director, Transparency International, Moldova

Gheorghe Coirpineu	Extension Officer, Agency for Consultancy and Training in Agriculture
Andrei Cuculescu	Vice Minister of Transport and Communications
Gheorghe Duca	Minister of Ecology, Construction, and Territorial Development
Gheorghe Efros	Former Head, ARIA; Prior Deputy Prime Minister
Igor Gorashov	General Director, Consolidated Ag. Project Mgt. Unit
Viorel Gutu	Head, Investment Programs and TA, Ministry of Agriculture and Food
Marian Lupu	Deputy Minister of Economy
Mihail Manoli	Ambassador to US; Prior Finance Minister
Marin Molosag	Vice Governor, National Bank of Moldova
Victor Moroz	Exec. Director, Agency for Restructuring Agriculture
Valdimir Munteanu	Former Technical Assistant to World Bank Executive Director
Vasile Munteanu	Exec. Director, Citizens Network for Foreign Affairs
Alexandru Muravschi	Director, Policy and Advocacy Unit, PFAP; Prior Minister of Economy
Aliona Niculita	Director, Center "Contact" (Umbrella NGO Organization)
Stefan Odagiu	Vice Premier, Minister of Economy
Anatolie Popusoi	Dir. General, MOLDSILVA; Agrarian Party Leader
Lilia Razlog	Director of Public Debt, Ministry of Finance
Oleg Reidman	Economic Advisor to the President
Andrei Rotaru	Head, Monetary Policy; National Bank of Moldova
Vladimir Solonari	Former Member Parliament, Present Political Analyst
Ludmila Stepan	Director, PIU, Education Project, Ministry of Education
Andrei Stratan	National Coordinator, Stability Pact for SE Europe, Ministry of Foreign Affairs
Ion Sturza	Director General, Rompetrol; Prior Prime Minister
Dimitri Todoroglo	Minister of Agriculture and Food
Victor Tsopa	Vice President, Air Moldova International; Prior Minister of Transport
Alexandru Ursu	Microprojects Director, PIU. Social Investment Fund
Felix Virlan	Vice Minister of Energy
Victor Volovei	Exec. Director, PIU, Health Investment Fund
Arcadie Zagorodniuc	Head, Department of Energy Policy; Ministry of Energy
Grechiany Zinaida	Minister of Finance

(Note: The above list excludes many farmers, mayors, educators, and health workers who met the CAE mission)

Aid Agencies

Victor Chiriac	Financial Services Advisor, BIZPRO, USAID
Carl-M Lindstrom	First Secretary, Embassy of Sweden, Moldova
Steliana Nedera	Representative, DFID, Moldova
John C. Starnes	Program Coordinator, USAID, Moldova
Victor Ursu	Exec. Director, Soros Foundation, Moldova

OED's Country Assistance Evaluation Methodology

1. By end FY03, OED had issued Country Assistance Evaluations (CAEs) assessing the outcomes, sustainability and institutional development impact of Bank assistance to 58 countries. These evaluations cover roughly 41 percent of borrowers and 65 percent of Bank lending and non-lending activities.

2. This methodological note describes the key elements of OED's country assistance evaluation (CAE) methodology.[15]

CAEs rate the outcomes of Bank assistance programs, not Clients' overall development progress

3. An assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If an assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, OED rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

4. The experience gained in CAEs confirms that program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

5. By the same token, an unsatisfactory assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent

[15] In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

6. OED measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

Evaluation in Three Dimensions

7. As a check upon the inherent subjectivity of ratings, OED examines a number of elements that contribute to assistance program outcomes. The consistency of ratings is further tested by examining the country assistance program across three dimensions:

(a) a *Products and Services Dimension,* involving a "bottom-up" analysis of major program inputs -- loans, AAA, and aid coordination;
(b) a *Development Impact Dimension,* involving a "top-down" analysis of the principal program objectives for relevance, efficacy, outcome, sustainability, and institutional impact; and,
(c) an *Attribution Dimension,* in which the evaluator assigns responsibility for the program outcome to the four categories of actors (see paragraph 5. above).

Rating Assistance Program Outcome

8. In rating the outcome (expected development impact) of an assistance program, OED gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. OED's task is then to validate whether the intermediate objectives produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

9. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a

diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

10. OED utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
Moderately Satisfactory:	The assistance program achieved acceptable progress toward *most* of its major relevant objectives. No major shortcomings were identified.
Moderately Unsatisfactory:	The assistance program did *not* make acceptable progress toward *most* of its major relevant objectives, *or* made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory:	The assistance program did not make acceptable progress toward *most* of its major relevant objectives, *and* either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Highly Unsatisfactory:	The assistance program did not make acceptable progress toward *any* of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

11. The **institutional development impact (IDI)** can be rated as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;

- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

12. **Sustainability** can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

MOLDOVA COUNTRY ASSISTANCE EVALUATION

MANAGEMENT ACTION RECORD OF OED RECOMMENDATIONS

Major Monitorable OED Recommendations Requiring a Response	*Management Response*
• Undertake a Country Economic Memorandum or a Development Policy Review to analyze and prioritize key development priorities, including governance issues, especially in the energy and social sectors, and factors constraining the investment climate.	• The MD Poverty Assessment is being finalized; a CEM (Growth Study) is planned for FY 05. Governance issues have been addressed in the recently completed Investment Climate Assessment, as well as in the Legal and Judicial Sector Assessment. Social Sector Assessment is underway and will be completed by the end of FY04.
• Avoid further adjustment lending until a stronger Government commitment to reform is evidenced.	• This recommendation will be taken into account in the preparation of the new CAS for Moldova (Board in June 2004).
• Focus project interventions in the social sectors and take concrete steps in each lending operation to guard against corruption and use civil society to monitor effectiveness.	• This recommendation will be taken into account in the design of the lending program in the new CAS for Moldova (Board in June 2004).

Government's Comments on the Draft CAE

GUVERNUL REPUBLICII MOLDOVA

GOVERNMENT OF THE REPUBLIC OF MOLDOVA

Nr. 0105-95/28 Chişinău 22.04.2004

Domnului Edward BROWN,
Manager de ţară

Banca Mondială

Stimate Domnule Brown,

Vă remitem alăturat comentariile Guvernului asupra proiectului Raportului de Evaluare a Asistenţei Ţării de către Banca Mondială pentru perioada 1992 – 2004.

Luînd în considerare că scopul de bază al Raportului de Evaluare este analiza obiectivă al impactului activităţii Băncii Mondiale asupra procesului de dezvoltare social-economică a Moldovei, acest document devine şi mai important, reieşind din faptul, că la moment se definitivează Strategia de Creştere Economică şi Reducere a Sărăciei, care va servi drept bază pentru asistenţa financiară şi tehnică din partea comunităţii donatorilor.

Astfel, în scopul continuării abordării în mod eficient a problemelor legate de creşterea economică în Moldova, considerăm că comentariile şi propunerile Guvernului vizavi de acest Raport vor avea un aport esenţial.

Cu respect,

Prim-ministru **Vasile TARLEV**

Casa Guvernului,
MD-2033, Chişinău,
Republica Moldova

Telefon:
+373-2-237795

Fax:
+373-2-242696

Government House,
MD-2033, Chisinau,
Moldova (Rep.)

PROPUNERI ŞI OBIECŢII
la proiectul Raportului de Evaluare a Asistenţei Ţării
al Băncii Mondiale

Proiectul Raportului de Evaluare a Asistenţei Ţării de către Banca Mondială are ca scop descrierea activităţii Băncii Mondiale în Moldova şi al impactului activităţii acesteia asupra dezvoltării social-economice. Totodată, Raportul în cauză urmează să contribuie la înţelegerea erorilor comise în trecut pentru o mai eficientă cooperare între Guvern şi Bancă pe viitor.

Proiectul Raportului în linii generale şi-a atins scopul urmărit. În Raport se dă o descriere generală a strategiei Băncii Mondiale pe parcursul perioadei examinate, se specifică volumul de credite acordat şi a asistenţei analitice şi de consultanţă, se analizează impactul sectorial al politicilor promovate de Bancă, se identifică dificultăţile, erorile comise de Guvern şi Bancă, ce au stat în calea atingerii rezultatelor scontate în măsura aşteptată.

Cu toate acestea, unele capitole şi declaraţii din cadrul raportului nu sînt relevante scopului urmărit şi poartă mai mult un caracter politic şi ne obiectiv.

Declaraţii de genul "...În 2001, alegătorii aduşi la sapă de lemn au votat un Guvern comunist care s-a bazat pe o platformă puternică de anti-reformă..." poartă un caracter politic şi declarativ şi trebuie excluse din raport (vezi ab. 1 din Rezumat, p. 1.12, p. 2.11, p. 3.6, p. 3.12, p. 3.13, p. 3.15, p. 3.17, ab. 1 "Rezultatul general al programului de asistenţă al Băncii", p. 4.8 ş.a.).

Primul capitol "Crearea unei naţiuni şi a economiei de piaţă în Moldova" poartă un caracter foarte general, declarativ, politizat şi nu are nici o atribuţie la scopul acestui Raport. Acest capitol include în sine o descriere a condiţiilor iniţiale şi a rezultatelor ce se observă la moment. Modul în care se fac aceste descrieri este extrem de categoric şi doar dăunează imaginii Moldovei pe plan internaţional. Considerăm că acest capitol poate fi mult mai compact şi mai corect sau în general omis.

Impactul sectorial al activităţii Băncii Mondiale este relatat corect, cu excepţia sectorului telecomunicaţii (p. 4.2), mediului de afaceri (p. 4.10), comerţului extern (p. 3.4, p. 3.15), sectorului energetic (p. 3.17).

Atît în sectorul de telecomunicaţii, cît şi cel energetic, au fost create agenţii independente de reglementare statutul cărora a fost şi va fi menţinut în viitor. Ironat este expus faptul, că programul SAC III a servit drept mecanism împotriva tentativelor Guvernului de a submina statutul acestor agenţii independente. Viceversa, prin semnarea Creditului SAC III, Guvernul şi-a asumat angajamentul că va menţine independenţa, modul deschis şi transparent de activitate a acestor agenţii, angajament care se respectă permanent.

În Raport se constată faptul, că "... mediul de afaceri este acum mai rău ca niciodată ..." din cauza corupției și intervențiilor permanente a statului în economie, inclusiv suspendarea și inversarea procesului de privatizare.

Doresc să menționez că deși fenomenul corupție continuă să persiste în Moldova și nivelul acestuia rămîne a fi înalt, totuși, conform studiilor efectuate, situația continuă să se îmbunătățească. În Raport trebuie, de asemenea, de menționat faptul, că Guvernul recent a adoptat Strategia pentru combaterea corupției cu un Plan concret de măsuri și a inițiat, cu suportul partenerilor internaționali, reforma regulatorie. De asemenea, trebuie de menționat rezultatele pozitive obținute în domeniul administrării vamale și combaterii contrabandei.

Cît privește procesul de privatizare, acesta continuă. Privatizarea întreprinderilor vinicole rămase n-a fost suspendată. La momentul actual se caută sursele necesare pentru contractarea unui consultant care va asista Guvernul în privatizarea obiectelor rămase. Doresc să menționez că aceasta a fost o condiție în cadrul programului SAC III.

Cu toate că Departamentul Evaluarea Operațiunilor al Băncii Mondiale a clasificat ca nesatisfăcător rezultatul programului de asistență pentru Moldova pentru perioada 1992 – 2004, Guvernul rămîne pe poziția că s-a obținut un progres semnificativ în implementarea reformelor și crearea condițiilor pentru o creștere economică durabilă.

Government's Comments on the Draft CAE
(English Translation)

GOVERNMENT OF THE REPUBLIC OF MOLDOVA

No. 0105-95/28 Chisinau April 22, 2004

Mr. Edward Brown,
Country Manager

World Bank

Dear Mr. Brown,

Please find attached the Government's comments regarding the Bank's draft Country Assistance Evaluation for 1992-2004.

Given that the main purpose of the Country Assistance Evaluation is an objective analysis of the World Bank's activity impact on the social-economic development process of Moldova, this document becomes even more important, since the Economic Growth and Poverty Reduction Strategy Paper is being currently completed, to serve as a basis for the donor community's technical and financial assistance.

Thus, to the effect of addressing efficiently further the issues related to economic growth in Moldova, we believe that the Government's comments and proposals regarding this report will bring an essential input.

Sincerely,

Vasile Tarlev
Prime Minister

Proposals and Objections to the World Bank's Country Assistance Evaluation

The Bank's draft Country Assistance Evaluation aims to describe the activity of the World Bank in Moldova and the impact of the latter on the country's social-economic development. Also, the report will contribute to the understanding of past mistakes in order to reach a better cooperation between the Government and the Bank in the future.

The draft report has generally attained its proposed objective. It provides a general description of the Bank's strategy for the reviewed period, its lending, analytic and advisory work, an analysis of the sector impact produced by Bank-promoted policies, difficulties, errors made by the Government and the Bank, impeding the achievement of expected outcomes to a certain extent.

Nevertheless, some chapters and statements in the report are not relevant to the pursued purpose and have more of a political and non-objective nature.

Statements like "…In 2001, the impoverished voters turned to a communist Government that had campaigned on a strong anti-reform platform…" have a political and narrative nature and must be excluded from the report (see paragraph 1 in the Executive Summary, p. 1.12, 2.11, 3.6, 3.12, 3.13, 3.15, 3.17, paragraph 1 "Overall Outcome of Bank Assistance Program, p. 4.8, etc.").

The first Chapter "Creating a Nation and Market Economy in Moldova" is very general, declarative, politicized, and has no attribution to the purpose of this report. This chapter includes a description of initial conditions and achieved outcomes. The manner of these descriptions is quite categorical and only harms Moldova's image worldwide. We believe that this chapter can be more compact and accurate, or excluded.

The sector impact of the Bank's activity is described correctly, except for telecommunications (p. 4.2), business environment (p. 4.10), foreign trade (p. 3.4, 3.15), energy (p. 3.17).

Both in telecommunications and energy independent regulation agencies have been established, the status of which was and will be maintained in the future. It was erroneous to state that SAC III served as a mechanism against Government's attempts to undermine the status of these independent agencies. On the contrary, by signing SAC III, the Government committed to maintaining the independence, the open and transparent activity manner of these agencies – a commitment that is observed on a permanent basis.

Another fact stated in the report is that "…the business environment is now worse than ever…" due to corruption and permanent interferences of the state in economy, including the suspension and reversal of the privatization process.

I would also like to mention that even if the corruption phenomenon continues to exist in Moldova and its level remains high, the situation continues to improve, according to the studies that have been carried out. Also, the report should mention that the Government adopted recently the Anti-Corruption Strategy with a specific Action Plan and initiated the regulatory reform, with the support of international partners. Also, the positive outcomes achieved in customs administration and anti-smuggling must be mentioned.

About the privatization process – it keeps continuing. The privatization of the remaining wineries was not suspended. Currently, we are looking for the sources needed to contract a consultant to assist the Government in the privatization of the remaining objects. I would like to mention that this was a condition under SAC III.

Even if the Bank's Operations Evaluation Department classified the outcomes of the Country Assistance Program for Moldova as unsatisfactory, the Government still believes that significant progress has been reached in implementing reforms and in creating conditions for sustainable economic growth.

CHAIRMAN'S SUMMARY: COMMITTEE ON DEVELOPMENT EFFECTIVENESS

Moldova Country Assistance Evaluation

(Meeting of June 2, 2004)

1. The informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on June 2, 2004 to discuss the Moldova Country Assistance Evaluation prepared by the Operations Evaluation Department (OED).

2. **OED Evaluation Findings.** The evaluation reviews the Bank's program from the time the country joined the World Bank in 1992 through FY2003. Moldova's transition experience had been very difficult. GDP was still less than half its pre-transition level, and poverty was widespread. Starting with no foreign debt at the beginning of the 1990s, the country now was highly indebted. Recent improvements in growth performance did not appear to be based on a solid foundation. The Bank had been a major provider of financial support, providing one-third of Moldova's net external assistance from 1993 to 1996. From 1997 through 2001, IDA provided one-quarter. Given the Bank's assistance program objectives—recovery of self-sustaining growth, development of an efficient private sector-led market economy, and poverty alleviation—the outcome of the Bank's assistance was rated unsatisfactory. Sustainability was unlikely. A primary problem in Moldova had been the Government's weak and half-hearted reform efforts. Initially, the international community had expected the transition process to be completed in a few years. By the mid-1990s, however, this overly optimistic view of Moldova's prospects was no longer warranted. While Bank strategy documents at that time acknowledged many of the potential risks, the macroeconomic projections remained upbeat, and lending was excessive given the reform record. Optimism lessened pressure for immediate and major reforms. The primary lesson from the evaluation was that the Bank needs to assess the economic outlook and the country's problems and prospects through such instruments as CEMs. The evaluation recommends (i) a focus on analytical work to identify the key development constraints and priorities; (ii) adjustment lending should be avoided until a stronger Government commitment to reform is evidenced; (iii) investment lending should focus on the social sectors, incorporating measures to guard against corruption and using civil society to monitor effectiveness.

3. **Comments from Management**. Management agreed with the recommendations of the report. It noted, however, that the report did not adequately take into account the full context of Moldova's difficult transition experience and the role the Bank was asked to play by the international community.

4. **Main Conclusions and Next Steps.** Members welcomed the OED evaluation and commended its candid and balanced evaluation of the difficult situation in Moldova, broadly endorsed its findings and recommendations, and agreed with the areas of suggested focus for future Bank Group assistance. The paper, they noted, contained valuable information on the Bank's work in Moldova during the past 12 years, and was a good source for drawing lessons with respect to future Bank work in the country. A speaker expressed the hope that the recommendations would be in the next country strategy for Moldova. Another speaker said that one lesson learned from the Moldova experience was that sometimes it could be misleading to classify countries as middle-income as opposed to low-income countries. While Moldova was considered a middle-income country, the foundation of its economy was very weak.

5. The Chair representing Moldova welcomed the evaluation, and said the Government greatly valued its collaboration with the Bank. However, it disagreed with OED on the overall outcome of the Bank's assistance program. It believed that significant progress had been made in implementing reforms and creating conditions for sustainable economic growth in Moldova. To achieve development sustainability and positive medium-term outcomes, the Government was focusing on developing the private sector, improving the business environment, strengthening the public administration to make it more effective, and expanding access of the poor to basic services and creating opportunities for income generation. The speaker added that an anti-corruption strategy with a specific action plan had recently been approved, and hoped that the Government and the Bank would together implement it. She noted the challenges the country faced, and said the Bank had an important role to play in the country. She further noted that the report did not analyze how the country, once viewed as one of the most successful former Soviet Union reformers, had declined so significantly and why the Bank program in the country had not worked. Moreover, while the report stated that the outcome of Bank assistance was unsatisfactory, sustainability was unlikely, and the institutional development impact of the Bank's program had been modest, it did not provide answers on how to address these problems. It also did not provide sufficient analysis of Moldova's debt problem or address what kind of capital flows were needed in Moldova. The report's recommendations only dealt with the social sectors and not the productive sectors and trade. Finally, the speaker expressed the hope that this report, along with discussions on the PRSP and the new country strategy, would help management in assisting Moldova.

6. OED responded that the ratings were justified given that the main objectives of the Bank's assistance strategy had not been achieved and it cautioned that the current upturn in growth was unlikely to be sustainable, given that it largely reflected improvements in the Russian economy and that private investment remained low. Regarding the anti-corruption strategy, OED noted that it had only recently learned about the proposed anti-corruption strategy. On the depth and persistence of the recession in Moldova, OED noted that the Bank program had supported appropriate policies, but the Government had failed to implement the reform program and sent inconsistent signals about reforms. This, in combination with extremely adverse initial conditions and an unfavorable external environment—the Russia crisis and weather-related problems—had been responsible for the economy's decline. The indebtedness problems had ensued because the Bank had continued to provide adjustment lending and did not withhold support when implementation faltered.

7. **Macroeconomic Issues**. Subcommittee members commented on a number of macroeconomic issues that were cause for concern in Moldova. A speaker noted that overoptimistic macroeconomic projections had led the Bank to underestimate the need for focusing on reform in governance and poverty alleviation. He expressed concern about the tendency to be overoptimistic on macroeconomic/growth projections, including debt sustainability for HIPC countries. He suggested that there should be some safeguards or incentives to discourage such overoptimistic projections. Another speaker noted that agriculture and manufacturing had declined as a percentage of GDP while services had been increasing. While this normally implied that development was taking place, this was not happening in Moldova and he speculated that it was because the government was getting larger without any imperative to become more efficient. A speaker asked what could be done to channel foreign exchange from remittances, which accounted for about 2/3 of goods exports, into productive use. Another speaker noted that growth was largely supported by remittances, which could be harmful to the economy because by increasing demand they contributed to inflationary pressures. OED responded that the increase in the service sector did not reflect an expansion of the Government

sector, but the growth of the informal sector, the adverse climate for private sector development and the delay in implementing agricultural reforms.

8. **Debt Sustainability**. Members noted Moldova's acute debt situation. One of them asked if a prudent debt sustainability analysis at the outset could have averted this. Another speaker asked if staff had found the debt sustainability framework useful in analyzing the Moldova situation. He noted that there were not many hard numbers and wondered whether, given weak governance, the base case of debt sustainability might be very low, making further Bank credits counterproductive. He suggested that under these circumstances tools developed for LICUS might be explored for use in Moldova. OED responded that, as also highlighted in the HIPC evaluation, the Bank's debt sustainability analysis had been based on optimistic growth assumptions, as well as optimistic assumptions about export growth and foreign direct investment, which were inconsistent with the climate for private sector development. Staff pointed out that debt service to the Bank and IDA represent less than 10 percent of Moldova's total debt service on long-term debt and less on total external debt.

9. **Analytic and Advisory Assistance.** Members of the Subcommittee expressed support for the proposal to focus on analytical work, including ESW, to identify key development priorities and to avoid adjustment lending until a stronger government commitment to reform was evidenced. A speaker observed that there was political pressure for the Bank to lend in transition countries where it had little experience and country knowledge. He felt that a CEM would have prompted the Bank to analyze more clearly the fundamental macroeconomic/reform issues and thus to lend at more prudent levels. He stressed that the Bank should not normally engage in lending before ESW had established an adequate base of country and sector knowledge. Another speaker asked how much effort had been put into capacity building in Moldova. He further noted that there was no evidence that the large amount of technical assistance grants had been evaluated to determine whether they were properly utilized or how they had affected certain systems.

10. **Private Sector Development.** A speaker noted from the report that private foreign investment confronted an adverse climate, and he requested more information about the hostility to foreign investment. Another speaker said action should be taken to improve the business climate, including efforts to control corruption and implement privatization. Regarding the Government's approach toward foreign investors, OED noted that foreign investors in the electricity sector had the legality of their privatizations challenged and that potential foreign investors in some wineries and Moldovan airlines had been deterred by Government intervention. The Region noted that the current Government had also stated that it would investigate all privatizations that had occurred under the previous administration.

11. **Reform Agenda.** Subcommittee members noted that financial sector and pension reform in Moldova had been more successful than reforms in the social sectors. Some of them asked what factors had contributed to this success. A speaker mentioned the case of Croatia, where financial reforms had succeeded while privatization had not, as an interesting parallel situation from which lessons might be drawn. OED noted that in both Croatia and Moldova, strong efforts by the respective Central Banks had initiated and implemented financial sector reforms, whereas Government commitment to private sector development and privatization were not as consistent. Another speaker said a key issue was the lack of political and social consensus on reform, which had a direct impact on collaboration with the Bank. He added that reform in the education and health sectors was key because this would help to reduce poverty and improve growth prospects through the impact on human capital. A speaker asked how the Bank was addressing the problem of low salaries for teachers, doctors and nurses.

12. **Lending in the Social Sectors.** Some members commented on the recommendation that investment lending should focus on the social sectors. One of them expressed some doubt about the proposed focus on lending to the social sectors while putting on hold lending to the productive sectors. He felt that there should be a more even handed approach because it would be difficult to sustain the social sector if the economic foundations were not strong. Another speaker said the recommendation that investment lending should focus on the social sectors might imply continued Bank lending in circumstances that were not safe for reasons of debt sustainability. One speaker requested further elaboration on the institutional weaknesses in the social sectors. OED responded that some investment in basic, local infrastructure at the community level may also be appropriate. OED agreed that any lending should be undertaken cautiously given Moldova's debt situation and should be based only on a robust debt sustainability analysis.

Chander Mohan Vasudev
Chairman