WORLD BANK OPERATIONS EVALUATION DEPARTMENT

OED REACH

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Based on the *Moldova Country Assistance Evaluation.*

Moldova: Country Assistance Evaluation

- Moldova has had a difficult transition. GDP is still less than half its pre-transition level and poverty is widespread. Moldova has also encountered debt problems; half of the public long term external debt is owed to multilateral creditors. Recently the economy has performed better, primarily due to the strengthening of the Russian economy.
- The Bank has provided substantial financial support. Per capita IBRD lending 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. Recently Bank financial support has declined to half the small country average.
- 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 is rated *unsatisfactory*. Sustainability is unlikely. The institutional development impact of the Bank's program has been modest.
- The Bank should focus on analytical work to identify key development priorities and initiate a dialogue on governance issues. Adjustment lending should be avoided until a stronger Government commitment to reform is evidenced, and investment lending should focus on the social sectors incorporating measures to guard against corruption and using civil society to monitor effectiveness.

Background

Moldova became independent in 1991 and joined the Bank in 1992. It had no history of prior independence, and was ethnically quite diverse. Moreover, its middle-income status was based upon massive Soviet energy subsidies as well as guaranteed markets for 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. It has had a difficult transition. 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. Inconsistent and halting reforms, corruption problems and a deterioration in its once effective social systems, due in large part to limited fiscal resources, contributed to its poor economic performance and high poverty. In 2001, the voters elected a Government led by the Communist Party of Moldova that had campaigned on an anti-reform platform.

World Bank Assistance

The Bank had relatively consistent and appropriate goals for its Moldovan program. These were to achieve positive economic growth, private sector development and public sector reform, and to ameliorate the effect of the transition on Moldova's poor. CASs were well designed and relevant with one exception; the FY02 CAS Progress Report did not reflect the Government's minimal ownership of the I-PRSP and the reform program. The thrust of the CASs was followed, but program lending rose to 60 percent of the total, well above that proposed in the strategies and investment lending was lower. In effect, the Bank used generous policy loans to push stalled reforms while deferring investment loans because of this same stagnation of reforms. The anticipated impact of the policy loans was not achieved. Moreover, until recently there was little dialogue on Moldova's growing corruption, nor was it addressed via projects.

Despite a weak and inconsistent reform program, the Bank provided 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. Recently Bank financial support has declined to half the small country average. Limited bilateral support and substantial lending by multilaterals meant that by the end of 2002 half of the public long term external debt was owed to multilateral creditors, and two fifths of it to the Bank Group.

The Bank's AAA was generally relevant and had an impact on government and donor decisions. However, there was no CEM between 1993 and 2003. A CEM in this period would likely 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.

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 is rated *unsatisfactory*. Moldova was among the last of the FSU economies to return to positive GDP growth; it is now one of the poorest countries in the region and remains highly indebted, rescheduling debts in an environment of severe payments problems. 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. Sustainability is rated *unlikely*. The institutional development impact of the Bank's Moldovan projects has been limited. The banking system and some other systems have done well, but social institutions remain weak and may be fiscally unviable. The legal framework is not being effectively implemented. The institutional development impact of the Bank's program is therefore rated *modest*.

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. 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.

Recommendations

The Report recommends (i) a focus on analytical work to identify key development priorities; (ii) adjustment lending should be avoided until a stronger Government commitment to reform is evidenced; and (iii) investment lending should focus on the social sectors incorporating measures to guard against corruption and using civil society to monitor effectiveness.

Government and Management Response

In its comments, the Government suggests that the evaluation, at times, is too categorical in its descriptions and analyses, and that it believes that significant progress in implementing reform has been made. Regional Management feels that the report does 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; it further notes that it agrees with the report's recommendations.

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