Moldova: Country Assistance Strategy

We welcome this joint WB/IFC CAS for Moldova. Once again staff has produced a high-quality document and made the necessary consultations to provide better sustainability to the change effort in Moldova.

Moldova economic and social panorama is worrisome. GDP is collapsing, poverty is spreading and deepening, government finances are bankrupt and domestic savings are negative. Severe external shocks, on top of policy mistakes, have worsened the performance of the economy, which has no solid fundamentals and is at a crossroad in its transition to a market-based system.

We have some general comments on the global CAS strategy and would appreciate clarification on some of its sections.

First, we do not agree with the CAS diagnostic that the initial reform effort was unbalanced, i.e. too much on liberalization and getting the prices right and too little on institutional reforms in the public sector. What comes out clearly from the CAS document is that the initial reforms were incomplete and had serious design and implementation problems.

In particular, the massive privatization of industrial enterprises maintaining a dominant government position is not a true privatization and was not so massive (only 35% of the industrial output is produced by fully private firms). Price liberalization with continuous interference from the government was not a true liberalization. Despite the drastic lowering of import tariffs, most of international trade still takes the form of barter trade where the role of the price mechanism is questionable. It is necessary to accelerate structural adjustment and in particular, to deepen the privatization as well as the liberalization efforts to have an operative market economy and minimize the negative effects of the crisis.

Second, what is needed in the institutional reform area, is to strengthen the institutions for the
functioning of a market economy, in particular, individual and commercial property rights, conflict resolution, law enforcement, judicial independence, etc.

Third, it is also clear from the CAS that the main problem in the public sector is that it is grossly oversized. The role of the state in a market economy is much more reduced and focused than in a command economy.

Fourth, we think that the role of IFC is crucial in attracting foreign investment and changing the command culture still reigning in Moldova to a culture based on competition and market organization of economic activities.

Fifth, regarding the risks of slowing down the reform efforts, the suggested remedy is to have single-tranche structural adjustment operations. We wonder if this is the optimal way of managing those risks. Would it not be more appropriate to have a set of APLs?

Finally, because in this case the IFM has an ongoing EFF and is planning on following up with an ESAF; a clear division of labor should be established between the Bank and the IMF. The bank should focus on supply response and leave to the IMF demand management policies.