INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A
PROPOSED CREDIT
IN THE AMOUNT OF SDR 19.8 MILLION
(US$30 MILLION EQUIVALENT)

TO
THE REPUBLIC OF MOLDOVA

FOR A
COMPETITIVENESS DEVELOPMENT POLICY OPERATION

October 2, 2012

Poverty Reduction and Economic Management Unit
Ukraine, Belarus and Moldova Country Unit
Europe and Central Asia Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.
MOLDOVA - GOVERNMENT FISCAL YEAR  
January 1 – December 31  
CURRENCY EQUIVALENTS  
(Exchange Rate Effective as of September 25, 2012)  
Currency Unit  =  Moldovan Lei  
USD1.00  =  12.37 MDL  
Weights and Measures  
Metric System  

**ABBREVIATION AND ACRONYMS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEI</td>
<td>Alliance for European Integration</td>
<td></td>
</tr>
<tr>
<td>BEM</td>
<td>Banca de Economii</td>
<td></td>
</tr>
<tr>
<td>CAR</td>
<td>Capital Adequacy Ratio</td>
<td></td>
</tr>
<tr>
<td>CEM</td>
<td>Country Economic Memorandum</td>
<td></td>
</tr>
<tr>
<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
<td></td>
</tr>
<tr>
<td>CPS</td>
<td>Country Partnership Strategy</td>
<td></td>
</tr>
<tr>
<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
<td></td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
<td></td>
</tr>
<tr>
<td>CoA</td>
<td>Court of Accounts</td>
<td></td>
</tr>
<tr>
<td>CPAR</td>
<td>Country Procurement Assessment Report</td>
<td></td>
</tr>
<tr>
<td>DPO</td>
<td>Development Policy Operation</td>
<td></td>
</tr>
<tr>
<td>DCFTA</td>
<td>Deep and Comprehensive Free Trade Agreement</td>
<td></td>
</tr>
<tr>
<td>ECA</td>
<td>Europe and Central Asia</td>
<td></td>
</tr>
<tr>
<td>ESRP</td>
<td>Economic Stabilization and Recovery Plan</td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
<td></td>
</tr>
<tr>
<td>FI</td>
<td>Financial Inspection</td>
<td></td>
</tr>
<tr>
<td>FSA</td>
<td>Food Safety Agency</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td></td>
</tr>
<tr>
<td>DSA</td>
<td>Debt Sustainability Analysis</td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
<td></td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
<td></td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
<td></td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
<td></td>
</tr>
<tr>
<td>LDP</td>
<td>Letter of Development Policy</td>
<td></td>
</tr>
<tr>
<td>MAFI</td>
<td>Ministry of Agriculture and Food Industry</td>
<td></td>
</tr>
<tr>
<td>MDGs</td>
<td>Millennium Development Goals</td>
<td></td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>MTBF</td>
<td>Medium-Term Budget Framework</td>
<td></td>
</tr>
<tr>
<td>NBM</td>
<td>National Bank of Moldova</td>
<td></td>
</tr>
<tr>
<td>NPL</td>
<td>Non-Performing Loan</td>
<td></td>
</tr>
<tr>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability Assessment</td>
<td></td>
</tr>
<tr>
<td>PER</td>
<td>Public Expenditure Review</td>
<td></td>
</tr>
<tr>
<td>PFM</td>
<td>Public Financial Management</td>
<td></td>
</tr>
<tr>
<td>PPA</td>
<td>Public Procurement Agency</td>
<td></td>
</tr>
<tr>
<td>PPG</td>
<td>Public and Publicly Guaranteed</td>
<td></td>
</tr>
<tr>
<td>PRSC</td>
<td>Poverty Reduction Support Credit</td>
<td></td>
</tr>
<tr>
<td>ROSC</td>
<td>Report on the Observance of Standards and Codes</td>
<td></td>
</tr>
<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
<td></td>
</tr>
<tr>
<td>SIDA</td>
<td>Swedish International Development Agency</td>
<td></td>
</tr>
<tr>
<td>TSA</td>
<td>Targeted Social Assistance</td>
<td></td>
</tr>
<tr>
<td>SPS</td>
<td>Sanitary and Phyto-sanitary Standards</td>
<td></td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
<td></td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
<td></td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
<td></td>
</tr>
</tbody>
</table>

Vice President: Philippe Le Houérou  
Country Director: Qimiao Fan  
Sector Director: Yvonne Tsikata  
Sector Manager: Benu Bidani  
Country Manager: Abdoulaye Seck  
Task Team Leader: Ruslan Piontkivsky  
Co-Task Team Leader: Karlis Smits
MOLDOVA
COMPETITIVENESS DEVELOPMENT POLICY OPERATION

TABLE OF CONTENTS

I. INTRODUCTION .......................................................................................................................... 1

II. COUNTRY CONTEXT ......................................................... 2
    POLITICAL CONTEXT ............................................................................................................... 2
    RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK .......................................................... 3

III. GOVERNMENT PROGRAM ..................................................................................................... 12
    IMPROVING THE INVESTMENT CLIMATE ............................................................................ 13
    IMPROVING ACCESS TO FINANCE .................................................................................... 14
    CONSULTATIONS ..................................................................................................................... 14

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM .................................................. 15
    LINK TO THE COUNTRY PARTNERSHIP STRATEGY ............................................................... 15
    COLLABORATION WITH THE IMF AND OTHER DONORS .................................................... 15
    LESSONS LEARNED ................................................................................................................. 16
    ANALYTICAL UNDERPINNINGS .......................................................................................... 17

V. THE PROPOSED OPERATION ............................................................................................ 20
    OPERATION DESCRIPTION ...................................................................................................... 20
    PILLAR 1: IMPROVE PRODUCTIVITY AND ATTRACT NEW INVESTMENT THROUGH
    INVESTMENT CLIMATE REFORM ....................................................................................... 20
    PILLAR 2: IMPROVE FINANCE FOR INVESTMENT ............................................................... 23

VI. OPERATION IMPLEMENTATION ........................................................................................ 25
    POVERTY AND SOCIAL IMPACT ............................................................................................ 25
    GENDER IMPACT ..................................................................................................................... 26
    ENVIRONMENTAL ASPECTS .................................................................................................. 27
    IMPLEMENTATION, MONITORING, AND EVALUATION .......................................................... 28
    FIDUCIARY ASPECTS .............................................................................................................. 28
    DISBURSEMENT AND AUDITING ......................................................................................... 30
    RISKS AND RISK MITIGATION ............................................................................................ 31

ANNEX 1. MATRIX OF POLICY ACTIONS AND EXPECTED OUTCOMES .................................. 34

ANNEX 2. LETTER OF DEVELOPMENT POLICY ..................................................................... 36

ANNEX 3. IMF ASSESSMENT LETTER ......................................................................................... 51

ANNEX 4. MOLDOVA AT A GLANCE ......................................................................................... 53

ANNEX 5. MAP ............................................................................................................................. 56

The Moldova Competitiveness DPO was prepared by a team comprising: Dino Merotto (TTL until April 2012), Ruslan Piontkivsky (TTL since June 2012), Karlis Smits (co-TTL), Olasupo Olusi, Mame Fatou Diagne, Iaroslav Baclajanschi, Victor Sulla, Sarosh Sattar, Maureen Itepu, Faith Tempest (consultant), (ECSP3), Pablo Saavedra (OPSPQ), Lilia Razlog (PRMED), Oleksiy Balabushko (ECSP4), Carolina Odobescu, Alia Muntean, Viorica Strah, Tamara Ursu (ECCMD), Wendy Werner, Eugeniu Osmoescu and Alberto Criscuolo (CEUC), Alexandra Mincu (CICRA), Anatol Gobilia, Pierre Olivier Colleye, Matthias Grueninger, Holger Kraay, Felicia Pricorp and Arcadia Capelea (ECSS3), Lars Sondergaard (EASHE), Marius Vismantas, Martin Melecky, Ghenadie Cotelic, and Melissa Rekas (ECSSF), Hemant Bajjal (CAIFI), Siddhartha Raja (TWICT), Andreas Schlesser (ECSS5), Shinya Nishimura, Sandu Ghidirim (ECSS2), Oxana Druta (ECSS3) and Elena Corman (ECSS2). Guidance from Qimiao Fan, Yvonne Tsikata, Martin Raiser, Benu Bidani, Abdoulaye Seck and Lalita Moorthy is acknowledged.
## PROGRAM SUMMARY
### MOLDOVA
### COMPETITIVENESS DEVELOPMENT POLICY OPERATION

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Republic of Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing Agency</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Financing Data</td>
<td>IDA credit of USD 30 million (IDA blend terms - grace period - 5 years, years to maturity – 25)</td>
</tr>
<tr>
<td>Operation Type</td>
<td>Development Policy Operation (DPO), stand-alone single tranche operation</td>
</tr>
<tr>
<td>Main Policy Areas</td>
<td>(i) Investment climate reform; (ii) increased private finance for investment</td>
</tr>
</tbody>
</table>

### Key Outcome Indicators

**Pillar 1:**
- Reduced administrative burden of business regulation:
  - Time and average cost of authorizations reduced to 12 days and US$200 on average in 2012;
- Reduced non-tariff barriers to trade:
  - Time and average cost of mandatory certification reduced to 10 days and US$100 on average in 2013;
- Gradual harmonization of product standards with EU standards:
  - Proportion of exporters to the EU who are also required to meet Moldovan product standards reduced to zero by 2012;
- Reduced overlapping inspections:
  - Number of inspection bodies reduced from 64 in 2010 to 33 in 2013;
- Fewer anti-competitive practices:
  - Application of ‘before the court’ mitigation of alleged violations;
- Increased competitiveness of Moldovan agro-food export products:
  - Piloting of new varieties covers 10 crops in 2013.

**Pillar 2:**
- Reduced cost of and increased access to payment and remittance services:
  - At least 3 licensed non-bank Payment Service Providers by 2013;
- Strengthened financial intermediation; increased transparency in the banking sector and alignment of financial reporting with EU standards:
  - All banks in Moldova started reporting under IFRS as of 2012.

**Program Development Objective(s) and**
The program’s objective is to improve competitiveness and thereby increase the volume of Moldovan exports, especially in EU markets; and
| Contribution to CAS | improve access to finance thereby promoting investment-led growth.  
This DPO operation will directly support the first pillar of the CPS, i.e. improving economic competitiveness. |
|---------------------|-----------------------------------------------------------------|
| Risks and Risk Mitigation | The main risks identified relate to:  
(i) Reversal of Policy Actions. In the past, lack of consensus in Parliament has led to the reversal in some measures, or to a slow pace of reforms. To mitigate the risk, many prior actions required Parliamentary passage of measures. Donors, including the Bank, will stay engaged in policy dialogue and implementation support.  
(ii) Implementation capacity and governance. The success of the reforms will depend on the Government’s implementation capacity, including the effectiveness of relevant agencies – Food Safety Agency and Competition Agency. Moreover, weaknesses in governance could potentially undermine the independence and effectiveness of public institutions and agencies. This risk is mitigated by ongoing technical assistance undertaken by donors to strengthen the capacity of public administration and selected Agencies.  
(iii) External shocks. Moldova, a small and open economy with a large agriculture sector, is susceptible to terms of trade shocks and weather-related risks, which can affect macroeconomic and fiscal balances. Some of these risks, related to adverse weather conditions, have already materialized. The recent drought has had an adverse impact, with shortfalls in production projected for most crops. While the program does not address the immediate impact of the drought, the program design seeks to diversify export markets, as well as products, and to improve access to private finance, including through better intermediation of remittances that have proved to be more resilient than other private inflows.  
(iv) Financial sector vulnerabilities. An increase in non-performing loans (NPLs) could further worsen the capital adequacy ratio of select public financial institutions with weak governance. The Authorities have identified these risks and are taking concrete steps to strengthen supervision and governance. Moreover, the IMF team is providing Technical Assistance and advice to minimize these risks. |
| Operation ID | P122226 |
1. This program document presents a proposed Competitiveness Development Policy Operation (DPO) for an amount of US$30 million. This is a single operation supporting the efforts of the Government of the Republic of Moldova to enhance growth through export competitiveness and increased access to finance. The Government’s Program for the period 2011-2014 represents a transition from the stabilization and recovery agenda to establishing a strong basis for growth driven by investment, innovation and competitiveness. The proposed operation builds on and deepens the growth and trade-oriented structural reform agenda started under the Economic Recovery Development Policy Operation, which was approved by the Board of Executive Directors on June 24, 2010.

2. The Government of the Republic of Moldova has an opportunity to implement reforms that would put the economy on a more sustainable export-led growth path. Emerging from the global economic crisis, Moldova’s economic growth resumed swiftly in 2010 and 2011; however, the current Euro area crisis is likely to result in a slowdown of growth in 2012 and in the medium term. Moreover, despite the recovery in 2010 and 2011, job creation remained weak. The main driver of growth in 2010-2011 was private consumption, suggesting that the economy could be returning to the pre-crisis pattern of growth. Before the crisis, a decade of growth with weak job creation created a vicious cycle of migration, remittances, exchange rate appreciation, declines in tradable sectors, joblessness, and thus more migration. Heavy reliance on remittance-funded consumption and housing construction leaves the economy vulnerable to changes in the external environment and undermines Moldova’s long-term competitiveness. As Moldova’s workforce declines with an aging population, there will be fewer migrants, and the contribution of remittances to future economic growth will gradually decline. The Government recognized the need for a second engine of growth from exports and investments. The Government’s Activity Program for 2011-2014 sets out a range of reforms to enhance export competitiveness, increase investment, and integrate more closely with the European Union (EU).

3. The proposed operation addresses binding constraints to economic growth by improving the returns to private investment and reducing the costs of finance. The first pillar addresses aspects of the investment climate which significantly reduce firm-level productivity and profitability, especially for exporters. The second pillar aims at improving access to private finance for investment through reforms to stimulate bank credit, develop the capital market and improve financial intermediation - particularly for small and medium enterprises, such as rural exporters and enterprises, which are typically established by returning migrants.
II. COUNTRY CONTEXT

POLITICAL CONTEXT

4. The election of a President in March 2012 has stabilized the political situation and opened a window for steady reform implementation. After two rounds of elections in July 2009 and November 2010, the parliamentary majority secured by the Alliance for European Integration (AEI) was enough to form the government, but fell short of the necessary 60 percent of votes to elect a President, resulting in a political deadlock. The inability to elect a President and the related uncertainties on early Parliamentary elections heightened tensions between the AEI and the Communist Opposition, as well as within the AEI, resulting in a slowdown in reforms. On March 16, 2012, the AEI garnered the necessary votes by enlisting the support of three Members of Parliament who left the Communist Party, and elected as the new President, Mr. Nicolae Timofii, a former head of Moldova's Supreme Magistrate Council. The election of President Timofii gives the AEI a window of stability until the next general elections in late 2014, and the expectations are that the reform pace will accelerate.

5. European integration anchors the policy reform agenda. Fifty two percent of polled Moldovans support European Union (EU) integration as a desirable strategic goal. The Government has accelerated progress on visa liberalization and free trade agreement with the EU. Negotiations on an Association Agreement are progressing, and the Government maintains its objective of EU accession within a reasonable time frame. Measures proposed by this operation support reforms needed for the EU-Moldova Deep and Comprehensive Free Trade Agreement (DCFTA). However, more action on improving governance, strengthening the Public Administration, establishing an independent judiciary and strengthening the rule of law will be needed for deeper political association and economic integration between the EU and Moldova.

6. Yet the society remains divided about some of the reforms required to transform Moldova into a modern European state. The AEI’s coalition holds a slim majority in the Parliament. At the technical level, differing views in the society on the suitable pace and depth of reforms are reflected in differences not only between the AEI and the Communist Party, but also within the ruling coalition. The Moldovan society is aging rapidly, especially in rural communities, and many vulnerable elderly people rely on social transfers, subsidized public services, and extensive social protection measures that pervade public services in almost all sectors of the economy. By contrast, the 20-30 year old urban-based voters, which brought the Alliance to power, have grown increasingly intolerant of the old-style political leadership, poor quality of public services and are impatient with what is starting to be perceived as foot-dragging by the AEI over structural reforms to modernize Moldova. The ability of the Government to address these differing views while maintaining its EU integration and pro-market reform agendas will be key to social stability, cohesion, and development.

---

1 Institute for Public Policy, May 2012 Public Opinion Barometer.
Recent Economic Developments

7. Moldova’s economy has recovered from the global financial crisis of 2008-2009, but growth rates have decelerated in early 2012 due to the escalating Euro area sovereign debt and banking crisis (see Figure 1). Recovery of remittances and investment growth fuelled domestic demand in 2010-2011, while exports were also strong (see Box 1). Real GDP grew by 7.1 percent in 2010 and 6.4 percent in 2011, and then decelerated to 0.8 percent in the first half of 2012(H1). Consumption slowed down from 6.4 percent in 2011 to 0.7 percent in 2012H1. The gross fixed capital formation contracted by 0.3 percent after 10.7 percent growth in 2011. Industrial production, being more volatile than GDP, declined by 0.3 percent during the first half of 2012, reflecting a fall in demand for products that are mainly exported to the EU, as well as the deceleration of domestic demand.

Figure 1: GDP Growth and Industrial Production

Figure 2: Indicators of Remittances


8. The current account deficit remains in double digits. Remittances recovered in 2010 and 2011, but still have not reached pre-crisis levels (see Figure 2). Foreign Direct Investment (FDI) remains 3 times lower than before the crisis, underscoring the importance of attracting investment to achieve a sustained recovery and spur modernization (see Figure 3). While the trade deficit remains very large, export growth has outpaced import growth in 2011, following some liberalization measures that facilitated exports of agriculture goods (e.g., lifting of the ban on grain exports in early 2011). Real growth of exports in 2011 was 28.6 percent, while imports grew 19.3 percent. Real growth of trade flows declined substantially in 2012Q1, but exports are still growing faster than imports (8.2 percent growth rate of exports vs. 6.1 percent of imports).

2 Thousands of Moldovans emigrated for work abroad over the last few years following nearly a decade of economic stagnation in their home country. At about 40 percent of the labor force, Moldova’s emigrant population is in relative terms among the largest in the world. As labor fled abroad, Moldova became one of the world’s most remittance-driven countries. Remittances expanded from 11.5 percent of GDP in 2000, to 30 percent by 2008.
In 2008, the global crisis led to a sharp decline in GDP, exposing the nature of remittance-financed and import-intensive economic growth. The effects of the global meltdown were transmitted to Moldova in the fall of 2008, as the recession hit major trading partners – Russia, Ukraine, Romania, and Western Europe, leading to sharp falls in remittances and export earnings (box figure 1). Domestic demand fell by close to 10 percent in 2009, and the real GDP contracted by 6.5 percent.

By 2010, as the global economy started to recover, growth in Moldova was fueled again by resumption of remittance flows, and, increasingly, by expansion of exports. In 2010, the economy grew by 7.1 percent, fully recovering to the pre-crisis level. However, the severity and abruptness of the downturn has exposed Moldova’s overreliance on remittances to finance domestic demand expansion, the heavy concentration of Moldova’s exports in a few commodities, and how dependent both these income sources are on the Russian economy. By the end of 2011, the GDP of Moldova had outpaced the pre-crisis level, and increased faster than in Romania, Ukraine or Russia (box figure 2). The structure of growth has also changed – in 2010/11 exports have become a bigger source of growth, compared to 2008/09.

### Box Figure 1: GDP Growth Decomposition in Moldova, Percentage Points

![GDP Growth Decomposition](chart)

### Box Figure 2: Real GDP Indexes in Moldova and Neighboring Countries

![GDP Indexes](chart)

**Source:** National Statistics and World Bank staff estimates.

### Table 1 External Debt Structure

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2011</th>
<th>2012 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ mil.</td>
<td>% of GDP</td>
<td>US$ mil.</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Total External Debt</td>
<td>3291</td>
<td>54.4</td>
<td>4512</td>
<td>64.4</td>
</tr>
<tr>
<td>Monetary Authorities</td>
<td>167</td>
<td>2.8</td>
<td>327</td>
<td>4.7</td>
</tr>
<tr>
<td>Government</td>
<td>778</td>
<td>12.9</td>
<td>1142</td>
<td>16.3</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>561</td>
<td>9.3</td>
<td>545</td>
<td>7.8</td>
</tr>
<tr>
<td>Other sectors</td>
<td>1785</td>
<td>29.5</td>
<td>2498</td>
<td>35.7</td>
</tr>
<tr>
<td>o.w. debt for energy</td>
<td>360</td>
<td>6.0</td>
<td>453</td>
<td>6.5</td>
</tr>
<tr>
<td>Short Term</td>
<td>1336</td>
<td>22.1</td>
<td>1857</td>
<td>26.5</td>
</tr>
<tr>
<td>Long Term</td>
<td>1955</td>
<td>32.3</td>
<td>2654</td>
<td>37.9</td>
</tr>
</tbody>
</table>

**Source:** National Bank of Moldova.

9. The current account deficit has continued to be financed by private sector borrowing and official financing to the public sector. Total external debt was 66 percent of GDP (US$ 4.7 billion) at the end of 2012Q1 (see Table 1). External debt roll-over, both private and public, has exceeded 100 percent in recent years, including in 2012Q1, ensuring financing of
the current account deficits and enabling foreign exchange reserve accumulation. Foreign exchange reserves have reached US$ 2.3 billion in mid-September 2012 – exceeding the pre-crisis level. Reserves coverage increased from 3.9 months of imports in 2009 to about 4.3 months in August 2012. Starting from end-2009, the National Bank of Moldova (NBM) has allowed more flexibility of the exchange rate, which has fluctuated around MDL 12 for US$ 1 for the last two years.

![Figure 3: Current Account and FDI as a Share of GDP](image1)

![Figure 4: Evolution of Exchange Rates and Reserves](image2)

*Source: National authorities, World Bank staff calculations.*

10. **Private credit growth remains robust, but non-performing loans (NPLs) gradually increased in 2012.** Credit growth resumed in 2010Q2 and reached 16 percent growth year on year by the end of 2011Q3, before accelerating to 17.4 percent as in July-2012 (see Figure 5). Despite economic recovery the NPLs have remained high - 10.7 percent by the end of 2011 according to the National Accounting System. Under the new system of reporting, NPLs have increased from 12.9 percent in January 2012 to 15.2 percent in July 2012. Among other factors, this reflects weakening economic activity and worsening balance sheets of some banks, including the majority state-owned Banca de Economii (BEM). BEM, which accounts for 13 percent of total assets in the banking sector and holds the largest number of individual depositors, requires urgent measures to repair its balance sheet and improve risk management practices. The new Bank management has begun the process of ensuring sound lending practices, cleaning the balance sheet and disposing of collateral to rebuild capital. Moreover, the authorities have passed legal amendments to facilitate restructuring of non-performing loans and are working on reforms to raise bank shareholders transparency. Meanwhile, the effect of an escalating Euro area debt crisis on Moldova is only indirect, as the direct exposure to European financial markets remains limited (see Box 2). The Capital Adequacy Ratios (CARs) remain high in the banking system (25.2 percent as of July 2012).

---

3 Starting from January 1, 2012 the banking system of Moldova is using International Standards of Financial Reporting.
Box 2: Banking Sector in Moldova

The banking sector in Moldova presents limited exposure to foreign assets and institutions. Out of 14 banks operating in the country only four are majority foreign-owned, accounting for approximately 20% of banking assets at end-June 2012, with Italian and French banks being the most important actors (14% of assets between the two). The volume of parent bank financing is insignificant and manageable; therefore no de-leveraging is expected to take place.

The five largest banks in the country account for over 70% of total assets and over 75% of total deposits in the system. Four of the largest 5 banks are domestic owned, including the majority state-owned Banca de Economii (BEM).

Most banks have remained liquid, well-capitalized, and profitable. The banking sector regulator addressed the longstanding concern that the regulatory CAR was not capturing underlying risks such as lending concentration, maturity transformation and unhedged lending in foreign currency, by increasing the minimal regulatory CAR from 12% to 16% as of July 2012.

In February 2012, the National Bank of Moldova put the small Universalbank into liquidation after it failed to resolve liquidity and capital deficiencies. The liquidation has proceeded well, taking advantage of the recently introduced bank resolution tools, with no impact on the overall stability of the banking system. In the process, the State Deposit Guarantee Fund fulfilled its obligations and participated in the settlement of claims from Universalbank’s depositors.

11. Inflation has declined significantly in the first half of 2012 because of weaker domestic demand and stable food and fuel prices, but started to increase in Q3 2012 due to severe drought Moldova experienced over the summer. Stalled growth of remittances and domestic demand, as well as a worsening external environment, reduced inflationary pressures in the first half of 2012. The CPI decelerated from 8 percent as of end-2011 to 3.7 percent in June 2012 (see Figure 5). However, the recent drought which has reduced the domestic supply of food has led to an increase in the CPI in July and August 2012 by 4.4 percent mainly driven by prices for vegetables and meat. Since 2010, the NBM is implementing inflation targeting with the main inflation target of CPI of 5 percent plus/minus 1 percent. In line with this policy, in the last quarter of 2011, the central bank loosened reserve requirements and gradually decreased its policy interest rate by 550 basis points to 4.5 percent. The monetary policy shifted to a more neutral stance by mid-2012 as the inflation outlook appears consistent with the objective.

12. The process of fiscal adjustment has continued. The General Government’s fiscal deficit decreased from 6.3 percent of GDP in 2009 to 2.4 percent in 2011 (Figure 6). On the revenue side, tax reforms included the reintroduction of the Corporate Income Tax in 2012 and gradual increases of excise taxes. Notwithstanding these revenue-enhancing efforts, the General Government’s budget revenues measured as a share of GDP declined from 38.9 percent in 2009 to 36.7 percent in 2011 (Figure 7). Grants from donors, mainly from the EU, amount to about 2 percent of GDP or 5 percent of total revenues. In the first half of 2012, revenue collection underperformed relative to initial plans due to weakening economic growth and deteriorating tax compliance. In particular, collections of VAT by Customs, excises and external grants were lower than planned. The Government has prepared revisions to the Law on State Budget 2012 to introduce additional revenue measures such as increasing the payment for gambling licenses, selling 4G mobile licenses and increasing taxes on cars older than 7 years. On the expenditure side, the overall level of General Government’s current expenditures as a ratio of GDP fell from 40.3 percent at the peak of the global financial crisis in 2009 to 34 percent in 2011 (Figure 8).
However, this decrease is attributed mainly to significant changes in the GDP levels rather than changes in expenditures. Nevertheless, the government has exercised expenditure control during the period of economic growth in 2010 and 2011, as a result, public wages as a share of GDP declined from double digits to about 9.4 percent of GDP in 2011. Similarly, capital expenditures fell from 7.1 percent of GDP in 2008 to 5.1 percent in 2011.

Table 2: Main Macroeconomic Indicators, 2006–2011

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP, MDL billion</td>
<td>44.8</td>
<td>53.4</td>
<td>62.9</td>
<td>60.4</td>
<td>71.9</td>
<td>82.2</td>
</tr>
<tr>
<td><strong>Real growth rates:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP, % growth</td>
<td>4.8</td>
<td>3.1</td>
<td>7.8</td>
<td>-6.0</td>
<td>7.1</td>
<td>6.4</td>
</tr>
<tr>
<td>Consumption, % growth</td>
<td>8.0</td>
<td>3.9</td>
<td>5.7</td>
<td>-6.9</td>
<td>7.3</td>
<td>6.4</td>
</tr>
<tr>
<td>GFCF, % growth</td>
<td>21.3</td>
<td>25.5</td>
<td>2.2</td>
<td>-30.9</td>
<td>17.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Export, % growth</td>
<td>1.1</td>
<td>10.5</td>
<td>3.4</td>
<td>-12.1</td>
<td>13.7</td>
<td>28.6</td>
</tr>
<tr>
<td>Import, % growth</td>
<td>9.1</td>
<td>14.6</td>
<td>2.9</td>
<td>-23.6</td>
<td>14.3</td>
<td>19.3</td>
</tr>
<tr>
<td><strong>Real Effective Exchange Rate (2000 = 100)</strong></td>
<td>102.9</td>
<td>101.9</td>
<td>110.2</td>
<td>111.1</td>
<td>117.5</td>
<td>129.2</td>
</tr>
<tr>
<td>GDP deflator, % growth</td>
<td>13.4</td>
<td>15.9</td>
<td>9.2</td>
<td>2.2</td>
<td>11.1</td>
<td>7.4</td>
</tr>
<tr>
<td>CPI, % average</td>
<td>12.7</td>
<td>12.3</td>
<td>12.7</td>
<td>0.0</td>
<td>7.4</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>Current Account Balance, % GDP</strong></td>
<td>-11.8</td>
<td>-16.5</td>
<td>-17.3</td>
<td>-9.8</td>
<td>-9.8</td>
<td>-12.6</td>
</tr>
<tr>
<td>Remittances, % growth in US$</td>
<td>28.8</td>
<td>26.8</td>
<td>26.5</td>
<td>-37.4</td>
<td>13.2</td>
<td>21.7</td>
</tr>
<tr>
<td>International Reserves (US$ million)</td>
<td>776</td>
<td>1334</td>
<td>1672</td>
<td>1480</td>
<td>1718</td>
<td>1965</td>
</tr>
<tr>
<td>Terms of Trade, % change</td>
<td>-16.8</td>
<td>-5.9</td>
<td>-8.8</td>
<td>14.8</td>
<td>-2.1</td>
<td>-14.3</td>
</tr>
<tr>
<td>FDI (% GDP)</td>
<td>7.1</td>
<td>11.7</td>
<td>11.5</td>
<td>2.2</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Budget Revenue, % GDP</strong></td>
<td>39.9</td>
<td>41.7</td>
<td>40.6</td>
<td>38.9</td>
<td>38.3</td>
<td>36.7</td>
</tr>
<tr>
<td>Budget Expenditures, % GDP</td>
<td>40.2</td>
<td>41.9</td>
<td>41.6</td>
<td>45.2</td>
<td>40.8</td>
<td>39.1</td>
</tr>
<tr>
<td>Fiscal Balance, % GDP</td>
<td>-0.3</td>
<td>-0.2</td>
<td>-1.0</td>
<td>-6.3</td>
<td>-2.5</td>
<td>-2.4</td>
</tr>
<tr>
<td><strong>External Debt, % GDP</strong></td>
<td>55.5</td>
<td>61.7</td>
<td>54.4</td>
<td>64.5</td>
<td>67.3</td>
<td>64.4</td>
</tr>
<tr>
<td>PPG Debt, % GDP</td>
<td>33.1</td>
<td>28.8</td>
<td>21.6</td>
<td>27.3</td>
<td>29.9</td>
<td>27.5</td>
</tr>
</tbody>
</table>

Source: National Statistics and World Bank staff calculations.

Figure 5: Private Sector Credit and CPI, Percent yoy

Source: National authorities, World Bank staff calculations.
13. **However, significant fiscal pressures remain.** The public sector wage bill at the central government, and particularly at the local government levels, remains high for a country like Moldova. Education sector inefficiencies continue to be large. The government has undertaken reforms to improve the expenditure composition, especially in the education sector, but much more needs to be done. These inefficiencies are crowding out productive expenditures in infrastructure and public services, and targeted social assistance. In addition, Moldova remains vulnerable to changes in import energy prices with critical effects on social assistance expenditures, as well as on tariffs, debt accumulation and arrears in public utility companies. The recent drought will also require additional expenditures to mitigate the negative impact of poor harvest.

**Figure 7: Revenue Structure as a Share of GDP**

**Figure 8: Expenditure Structure as a Share of GDP**

![Graphs showing revenue and expenditure structure as a share of GDP]

*Source:* Ministry of Finance, World Bank staff calculations.

**Recent Poverty Trends**

14. **The counter-cyclical economic policy in Moldova cushioned the adverse impact of the 2008/09 economic crisis on the poor and vulnerable population.** Despite the global economic crisis and recession in Moldova, the poverty rates remained flat at just over 26 percent in 2009 (see Figure 9). The pre-crisis trend of poverty increase in rural areas and decrease in urban areas continued. A large counter-cyclical stimulus supporting the poor was associated with increases in pensions, social assistance benefits and wages in public sector. According to Bank staff simulations, anti-crisis policy interventions buffered the increase in the poverty rate in 2009, saving close to 3.1 percent of the population from falling into poverty⁴ (see Figure 10).

---

⁴ 3.1 percentage points implies 108 thousand people. This reflects the difference between the official poverty rates in Moldova and the simulated hypothetical poverty rates assuming no-government intervention.
Poverty rates declined in 2010 in line with the economic recovery, helped by growth in agriculture, recovery of remittances, and improved targeted social assistance. In 2010, the poverty rate declined by 4.4 percentage points to 21.9 percent driven by a decline in rural poverty. This reduction in poverty owed a lot to recovery in prices received by farmers and exports of the agricultural sector. Consequently, rural poverty decreased by 6 percentage points in 2010 – the first reduction in rural poverty in Moldova since 2007. Poverty increased slightly in the two big cities (Chisinau and Balti) for the first time since 2006. The poverty profile shows that households headed by farmers and rural households have high rates on poverty, and thus agricultural measures that enhance productivity and boost exports would increase incomes. In addition, the rebound in remittances has helped recovery in rural communities.

Improved targeted social assistance also contributed to the poverty decline. The new Targeted Social Assistance (TSA) scheme improved social protection for the poor and most vulnerable. Both targeting accuracy and coverage improved: 86 percent of the new TSA recipients were in the poorest consumption quintile and the program expanded, covering 14 percent of those in the poorest quintile in 2010. The generosity of social assistance also improved, with the new TSA accounting for 30 percent of the consumption of those in the lowest quintile (compared to 7 percent for nominative compensations). These improvements raised Moldova’s capacity to protect its vulnerable population in a more fiscally sustainable way.

**IMF Program**

The Government of Moldova requested an IMF program by the end of 2009 to address macroeconomic vulnerabilities and withstand the economic crisis. The program comprises a combined Extended Credit Facility/Extended Fund Facility split equally between the two facilities in the amount 368 million SDR (about 588 million US$), and was approved by the Board of IMF Executive Directors on January 29, 2010. The macroeconomic program rests on four pillars: (i) fiscal policies to restore sustainability while safeguarding public investment and social spending priorities; (ii) flexible monetary and exchange rate policies to keep inflation under control, facilitate adjustment to shocks, and rebuild foreign reserves; (iii) policies to ensure financial stability by early detection of bank difficulties and strengthening the legal framework for bank rehabilitation and resolution; and (iv) structural reforms to raise the economy’s potential.
18. The fourth review of the IMF program was completed in February 2012, and the fifth review is scheduled for end-September 2012. In total, SDR 270 million has already been drawn from the available resources under the current program. In May 2012, the IMF mission reached a staff-level agreement with the authorities on the completion of the fifth review under the ECF/EFF arrangements, subject to approval by the IMF Management and Executive Board. The current priority of the IMF program is to ensure fiscal consolidation by containing the budget deficit to 1.3 percent of GDP in 2012 in line with available financing and ensuring a sustainable fiscal position going forward. In this context, authorities closed loopholes in the VAT and imported car registration regimes, brought the Chisinau municipal budget in line with broader fiscal targets, improved tax and customs administration, and cleared government expenditure arrears. On September 17, the IMF staff submitted the documents for the fifth review of the program for the Executive Board’s review on September 28, 2012. This program is expected to expire in January 2013.

Economic Outlook

19. GDP growth is expected to decelerate to 1 percent in 2012 in line with worsening external conditions and adverse weather conditions, before returning to 4-5 percent growth rate by 2014-2015. The Euro area crisis’s main transmission channels to Moldova are external trade and remittances. First, deepening of the crisis in the EU countries decreases demand for Moldovan exports (about half of exports go to the EU). Second, since half of Moldovan migrants work in Southern European countries of the EU, the epicenter of the ongoing debt problems, remittances through this corridor are going to be affected. In addition, the ongoing drought is projected to reduce agricultural output. Growth of credit to economy would slow in 2012 and remain moderate in 2013. Inflation is expected to be within the target of 5 percent +/- 1 percent in line with NBM targets.

20. The current account deficit is expected to remain above or close to 10 percent of GDP in the medium term. Export growth rates are expected to outpace those of imports, but given that imports are close to double the size of exports, trade deficits will remain large over the medium term. Assuming a lagged positive effect of structural reforms under implementation, including those supported by this operation (see Section V), higher value added exports would help to narrow the trade imbalance over time. Growth of remittances is expected to be modest over the forecast period. FDI is projected to gradually increase provided that the investment climate continues to improve.

21. Budget consolidation is projected to continue in the coming years. We assume that the fiscal deficit target under the IMF-supported program of 1.3 percent of GDP in 2012 will be achieved, and project a fiscal deficit of around 1 percent of GDP in 2013-2015.

---

5 Moldova’s agriculture sector faced unprecedented hot weather and continued lack of precipitation in June-August 2012. These phenomena were widespread (80 percent), average temperatures during the period of June 1-August 8, 2012, were 4.5 degrees higher than normal. Against this backdrop, precipitation was only at 20-60 percent of the multi-year norms. These agro-meteorological conditions have had a negative impact on the development of crops such as wheat, corn, sunflower, sugar beet and other field crops.
Table 3: Moldova: Medium-Term Economic Projections for 2012–2015

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP, MDL billion</td>
<td>87.6</td>
<td>95.0</td>
<td>103.9</td>
<td>114.8</td>
</tr>
<tr>
<td>Real GDP, % growth</td>
<td>1.0</td>
<td>3.0</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Consumption, % growth</td>
<td>0.8</td>
<td>2.3</td>
<td>3.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Fixed Investment, % growth</td>
<td>0.6</td>
<td>4.8</td>
<td>6.1</td>
<td>8.4</td>
</tr>
<tr>
<td>Export, % growth</td>
<td>4.3</td>
<td>6.4</td>
<td>7.4</td>
<td>9.4</td>
</tr>
<tr>
<td>Import, % growth</td>
<td>2.5</td>
<td>4.3</td>
<td>5.7</td>
<td>6.8</td>
</tr>
<tr>
<td>GDP deflator, % growth</td>
<td>5.5</td>
<td>5.3</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>CPI, % average</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Current Account Balance, % GDP</td>
<td>-11.0</td>
<td>-10.2</td>
<td>-9.7</td>
<td>-9.2</td>
</tr>
<tr>
<td>Remittances, % growth in US$</td>
<td>4.0</td>
<td>5.0</td>
<td>7.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Terms of Trade, % change</td>
<td>0.1</td>
<td>0.6</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Budget Revenues, % GDP</td>
<td>36.6</td>
<td>36.8</td>
<td>36.8</td>
<td>36.8</td>
</tr>
<tr>
<td>Budget Expenditures, % GDP</td>
<td>37.9</td>
<td>37.8</td>
<td>37.8</td>
<td>37.7</td>
</tr>
<tr>
<td>Fiscal Balance, % GDP</td>
<td>-1.3</td>
<td>-1.0</td>
<td>-1.0</td>
<td>-0.9</td>
</tr>
<tr>
<td>External debt, % GDP</td>
<td>74.1</td>
<td>73.3</td>
<td>71.1</td>
<td>69.0</td>
</tr>
<tr>
<td>PPG debt, % GDP</td>
<td>29.5</td>
<td>28.3</td>
<td>27.0</td>
<td>25.5</td>
</tr>
</tbody>
</table>


22. While the Debt Sustainability Analysis (DSA) framework indicates a low risk of debt distress, overall debt sustainability is vulnerable to a prolonged adverse growth shock. The Joint IMF-WB DSA Update (2012) suggests that the overall public sector debt dynamics are sustainable. Public and publicly guaranteed (PPG) debt was equal to 28.6 percent of GDP by end-2012Q1. Total external debt is projected to stabilize, while PPG debt is projected to start a declining path after 2012. The analysis of PPG debt shows high sensitivity to a shock in output growth (see Figure 11), while total external debt is most sensitive to a one-time nominal depreciation shock (see Figure 12).

Figure 11: Public and Publicly Guaranteed Debt Dynamics as a Share of GDP

![Figure 11: Public and Publicly Guaranteed Debt Dynamics as a Share of GDP](image1.png)

Source: Joint IMF and World Bank DSA update of 2012, draft.

Figure 12: External Debt Dynamics as a Share of GDP

![Figure 12: External Debt Dynamics as a Share of GDP](image2.png)

Source: Joint IMF and World Bank DSA update of 2012, draft.
23. **The macroeconomic risks to this outlook are substantial.** First, the debt crisis in Euro area could worsen further undermining Moldova’s exports and remittance flows. Second, a negative oil price shock could push Russia’s economy into a recession resulting in a significant decrease in remittances and export demand from Russia. Third, slippages in implementing macroeconomic and structural policy reforms could potentially reduce donor support. Fourth, the agriculture sector remains vulnerable to extreme weather conditions – the excessive drought of summer 2012 will likely have a negative impact on the economic growth. Fifth, an increase in non-performing loans (NPLs) could further worsen the capital adequacy ratio of select public financial institutions with weak governance resulting in additional fiscal pressures.

24. **While Moldova remains vulnerable to a variety of shocks in a fragile global environment, the existing macroeconomic policy framework is adequate for the DPO to proceed.** The IMF-supported program that underpins the current macroeconomic policy framework, as well as the EU integration agenda would serve as an anchor of prudent fiscal and monetary policies needed for a sustained recovery. Moreover, Moldova’s macroeconomic policies of maintaining flexible exchange rates and inflation targeting, as well as low public debt levels, have reduced the main macroeconomic risks. This operation also complements the IMF supported program by emphasizing structural reforms as a key element of policy credibility and rapid recovery over the medium term.

### III. GOVERNMENT PROGRAM

25. **The overarching strategic priority of the Government is improving the welfare of people by promoting sustainable economic growth and European integration.** The Government is striving to change Moldova’s development paradigm from a consumption driven-economy to an economy based on investments, innovations and competitiveness. At the same time, European integration is a strategic goal of the domestic and foreign policy of the Government.

26. **The Government’s medium-term reform agenda is reflected in the Government’s Activity Program for the period 2011-2014 entitled “European Integration: Freedom, Democracy, Welfare”, which was adopted in January 2011.** The overall strategic directions of the Government’s economic reform program include:

   i. **European integration.** The objectives include negotiating the Association Agreement, including the DCFTA, with the EU.

   ii. **Reintegration of the country.** The objectives include creating conditions for economic, political and social reintegration of the Transnistrian region.

   iii. **Efficient and balanced foreign policy.** The objectives include strengthening relationships, including economic relationships, with neighboring countries as well as with strategic partners – the EU, the United States and Russia, at the same time scaling up traditional cooperation with the CIS countries.

   iv. **Strengthening rule of law.** The objectives include strengthening the rule of law by implementing reforms of the judiciary, a critical element in improving the investment climate and reducing corruption.

   v. **Poverty reduction and provision of high quality public services.** The objectives include reducing poverty and increasing access to education and quality health care services.
vi. **Sustainable economic growth.** The objectives include changing the development paradigm from a consumption driven economy to an economic growth driven by investments, innovations and competitiveness. At the same time ensuring continued macroeconomic stability by (i) maintaining price stability, (ii) implementing a flexible exchange rate policy, (iii) implementing prudent fiscal policy, and (iv) reducing fiscal burden on the economy and extending access to finance.

vii. **Power decentralization.** The objectives include aligning the public administration with the European principles and norms, including undertaking local administration reform to empower local public authorities.

In 2011, the Government adopted a detailed action plan to ensure a swift implementation of this Program. This DPO supports the Government’s competitiveness and private sector job creation agenda under its sustainable economic growth objective.

27. **The Government’s Activity Program for the period 2011-2014 represents a transition from the stabilization and recovery agenda to a focus on establishing a strong basis for future growth.** Upon taking office in October 2009, the Government took steps to address the economic and financial crisis and launched the Economic Stabilization and Recovery Program (ESRP) for 2009-2011. In January 2010, the IMF approved a three-year Extended Credit Facility and Extended Fund Facility Program based on the ESRP. Under the ESRP, the Government began implementing a comprehensive and detailed action plan of legal and administrative reforms to “de-regulate, liberalize and de-monopolize” the economy. The Government’s Activity Program for 2011-2014 takes forward and deepens these reforms with the intention of moving away from a consumption-driven economic growth to one driven by investment, innovation and competitiveness.

28. **The Program is consistent with the newly approved National Development Strategy: Moldova 2020, which sets out long-term development priorities.** The adoption of Moldova 2020 in 2012 anchors the Government’s Program in the context of long-term development objectives.

**IMPROVING THE INVESTMENT CLIMATE**

29. **The investment climate reform aims at removing administrative constraints to export growth and increasing competition.** Currently, the quality of business environment is negatively affected by high administrative and compliance costs associated with the opacity of regulations and discretionary enforcement of sanctions. Discretionary rules on certifications, inspections and licensing distort competition by facilitating monopolistic practices by market dominating firms. Moldova ranks significantly below other countries in the region in the Doing Business 2012 survey (ranked 81st out of 183 countries). Moreover, firm-level analysis shows administrative compliance costs are reducing profitability and competitiveness in Moldova. High compliance costs within an overregulated economy, coupled with unfair competition, are a root cause of Moldova’s limited business expansion, joblessness and limited investment opportunities.

30. **Government’s policy actions focus on simplification of regulation and improving the legal framework on competition.** In specific terms, Government’s policy actions include speeding up regulatory reforms, simplifying procedures for registration of business, optimizing licensing requirements, and aligning national legislation with the EU legislation, mainly in areas
of information transparency and shareholder protection. The policy actions to increase competition focus on improving the legal and institutional framework in line with the European legislation and EU recommendations. At the same time, the Government is strengthening the institutional capacity of the National Agency of Consumer Protection. These reforms will provide favorable pre-conditions for sustainable economic development by strengthening investor confidence and increased foreign investment flow. These reforms are expected to improve the investment climate and promote investment growth.

**IMPROVING ACCESS TO FINANCE**

31. **The financial sector reform aims at strengthening financial intermediation and promoting efficient allocation of financial resources.** Moldova’s financial system is largely dominated by the banking system, but companies signal limited access to finance, and the financial intermediation level is one of the lowest in the region. Business supporting measures undertaken by the Government in recent years were meant to attenuate the post crisis effects on them and to stimulate their development by re-launching and developing the tools of enhancing the access to finance for newly-established and existing companies.

32. **Government’s policy actions focus on strengthening financial intermediation, reducing the costs of financial resources and streamlining procedures of the collateralized lending framework for credits and loans.** In specific terms, the Government aims at introducing reforms targeted towards the optimal utilization of remittances, by attracting these funds into the formal financial sector for further intermediation to SMEs. Less than 10 percent of the flow of remittances into Moldova is currently retained in the formal financial sector in the form of bank deposits. In parallel, reforms will focus on improving the availability of credit to profitable and creditworthy small companies as their investment opportunities improve with the business environment and as more savings stay longer in financial institutions. These reforms are expected to increase the share of financial flows channeled through the banking and non-banking sectors. Financial sector reforms will also maximize the development impact of remittances by reducing the costs of sending them, and increasing the share that is banked.

**CONSULTATIONS**

33. **Since taking office, the Government has enhanced consultations on their policy reforms.** In 2010, the Government streamlined the role of the National Council for Participation. Members of the Council include civil society organizations and the Council is consulted on Government regulations before being adopted. Moreover, all legislative measures and reforms are subject to a thorough consultation process with social partners, civil society and groups likely to be impacted. In addition, during the preparation of Moldova 2020 strategy, the Government has introduced an interactive web site (http://particip.gov.md/) to solicit comments and suggestion. For the Government Program itself, as well as to inform debate and agreement in Parliament, consultations were undertaken with the NGO community.

34. **The Government undertook extensive consultations with key stakeholders on reforms supported by this operation.** The Ministry of Agriculture and Food Industry (MAFI) organized consultations with multiple sector stakeholders, including farm associations and representatives of the private sector of agricultural producers and processors to inform and consult on the upcoming reforms in food safety as well as the seed variety new registration procedures. The design of Government’s policy initiatives in investment climate reforms
included consultations with key stakeholders from the public and private sectors, including business associations. The proposed reforms to improve access to finance have been consulted and debated with a wide range of stakeholders, from Ministries and Governmental agencies to financial sector regulators, to private sector operators, to business associations and specialized mass-media. Draft laws and legal amendments supported by this operation have been published on the respective web-sites of Government agencies well in advance, which allowed for a constructive dialog with all relevant stakeholders. As a result of these extensive public consultations the draft laws and legal amendments have been improved to better serve the purpose of the proposed reforms.

35. **Specific additional consultations are taking place on reforms which will require strong political and public support.** For instance, the Government is undertaking public consultations on consumer protection and fair trading measures, such as the Law on Competition and on the Law on State Aid. Moreover, Parliament’s Budget Committee has undertaken significant consultations on these laws and other reforms by creating ad hoc public-private working groups for inspection, competition and insolvency related laws.

IV. **BANK SUPPORT TO THE GOVERNMENT’S PROGRAM**

**LINK TO THE COUNTRY PARTNERSHIP STRATEGY**

36. **The proposed operation is an integral part of the CPS for the period FY09 – FY13.** The CPS Progress Report, presented to the Board in June 2011, confirmed the validity of the three CPS pillars of (i) improving economic competitiveness; (ii) minimizing social and environmental risks, building human capital, and promoting social inclusion; and (iii) improving public sector governance. The CPS also notes the need for the Bank to adapt its program in response to several factors, including the opportunity created by the reform mandate given to the Government by voters and the country’s EU integration agenda. This DPO operation will directly support the first pillar of the CPS, improving economic competitiveness. Improving the business environment and enhancing competitiveness are also at the center of the Government’s agenda, and are at the heart of the EU-Moldova DCFTA.

37. **The operation is complemented in each area by Technical Assistance and investment lending.** Preparation of the Agricultural Competitiveness Project, approved in FY12, and IFC’s TA in Investment Climate Reform have strongly informed the policy reforms in these areas, in partnership with the EU Technical Assistance under the DCFTA. Reforms in the financial and private (insolvency legislation) sector are supported by Technical Assistance under the FIRST initiative. Whilst the DPO focuses particularly on the legislative and regulatory reform, sector lending will provide more specific assistance to institutions to implement reforms. In agriculture, the operation is supported by the ongoing Agricultural Competitiveness Project for Moldova. The project aims at enhancing the competitiveness of the agro-food sector by supporting the modernization of the food safety management system, facilitating market access for farmers, and mainstreaming agro-environmental and sustainable land management practices.

**COLLABORATION WITH THE IMF AND OTHER DONORS**

38. **Collaboration between the Bank and the IMF remains strong.** World Bank staff regularly take part in IMF missions and joint dialogue with the Government on macroeconomic
policy issues. The preparation of the CEM provided an opportunity for joint Bank-IMF presentations to the Government. Moreover, the dialogue between the IMF and the Bank is extended to reforms in the education and energy sectors as well as on the financial sector, and more broadly on expenditure rationalization. This cooperation has allowed leveraging necessary support for critical reforms.

39. **Moldova benefits from considerable external support, especially from Europe.** The Government’s European integration agenda has accelerated progress on visa liberalization and on the start of negotiations on DCFTA. As well as providing assistance to Moldova to bring its legislation into line with the *acquis communautaire*. The EU is supporting a number of sectors, in particular - quality assurance and standards, and infrastructure by providing sector budget support and Technical Assistance. The Bank and the EU Delegation maintain close dialogue on these issues, along with SIDA, USAID and the Millennium Challenge Corporation (MCC).

**LESSONS LEARNED**

40. **This DPO was designed taking account of lessons learned from previous operations, and insights from the recent Country Economic Memorandum (CEM).** The formulation of this policy-based operation draws lessons from the preceding Economic Recovery DPO (2010) and Poverty Reduction Support Credits (PRSCs) (2006-2008) and earlier policy operations in Moldova. Design of the new proposed operation benefited from extensive policy dialogue and analysis in preparation of the CEM. The choice of instrument and balance of responsibilities between the IMF and World Bank programs were informed through the CPS process and through sustained collaboration and dialogue between the Bank and the Fund. The following specific lessons were applied to this operation.

41. **The effectiveness and sustainability of reforms requires ownership from all relevant stakeholders.** Government ownership of the policy agenda is of fundamental importance and it is best established through extensive engagement and dialogue. This operation is fully aligned with the Government’s Action Plan. The PRSC experience showed that policy reform measures requiring legal amendments should have broad country ownership; implementation of the reform agenda suffered when the Parliament failed to approve legislation prepared by the Government. The previous DPO showed that reforms, which have polarized support, can still be implemented in an uncertain political environment, but their sustainability requires political leadership and endorsement. Accordingly, where appropriate, this operation’s prior actions involve both Government adoption *and* Parliamentary enactment of legislation. To facilitate dialogue, there were extensive consultations on reforms supported by the Bank during the preparation and dissemination of the CEM, including with Members of Parliament, universities, the media and NGOs.

42. **Strategic and extensive analytical work can help both program design and Government commitment.** For the Economic Recovery DPO, early engagement by the Bank with the Government through analytical work ensured alignment and commitment: the Policy Notes prepared by the Bank and other partners were instrumental in the preparation of the Government Plan (ESRP) for 2009-2011, and the DPO in turn supported the ESRP. Likewise, this operation is underpinned by the recent CEM, which outlines economic growth priorities in the post-crisis environment. Where further analytical work is required to build components for a
future DPO series (for example, in the transport and logistics sector), such work will be conducted and discussed in subsequent years.

43. **Opportunistic sequencing and an understanding of the political economy of reform can foster progress even under high political uncertainty.** This proposed operation is designed to support high impact structural reforms which are not contentious politically, are consistent with the DCFTA, and can be undertaken in the short-run. The choice of measures was facilitated by a range of analytical work, including the CEM. This work helped identify so-called “sine qua non” measures, as well as low-cost reforms that require limited action but would generate substantial gains – the “low hanging fruit”. The DPO policy actions focus on actions for which there is strong commitment among Alliance members, notably those related to its EU integration objectives and to reducing business regulation and compliance costs.

44. **The choice of policy areas in the operation must balance the gains from cross-sectoral synergy against the burden of inter-sectoral coordination.** The PRSCs showed that selectivity is important to achieve results when institutional capacity is limited. Accordingly, this operation focuses on priority and well-defined policy areas in a single year. To improve coordination with the Government of Moldova, policy dialogue on the detailed actions will continue to be held with the Ministry of Economy, the Ministry of Agriculture, and the Central Bank, whilst the overall program monitoring will be coordinated with the State Chancellery.

**ANALYTICAL UNDERPINNINGS**

45. **The Bank has undertaken extensive analytical work underpinning the policy areas and prior actions covered by the proposed operation.** The design of this operation is underpinned by diagnostic and analytical work undertaken under the Country Economic Memorandum 2011 (CEM) supplemented by analytical work in the agriculture, business and financial sectors (see Box 3 on the key finding of the CEM). Financial sector activities have aimed to help the Government strengthen the foundations for private sector growth through increased retention of remittances in the financial sector and access to longer-term financing for companies. Table 4 contains a detailed account of AAA activities between 2009 and 2012 and their linkages to prior actions supported by this operation.

46. **The Bank’s policy dialogue, including in the context of this operation, has informed the design of reforms.** In the area of investment climate reform the Bank carried out a number of expert discussions and prepared policy notes with recommendations. In the area of finance the Bank has supported the National Commission for Financial Markets in its efforts to improve the legal and institutional framework for non-bank financial institutions (Financial Sector Reform Project in 2009-2011); provided Technical Assistance for payment system modernization (funded by the FIRST); provided Technical Assistance to the NBM aimed at enhancing the collateralized lending framework (funded by FIRST); prepared position and technical notes on capital market development, credit reporting, financial sector supervision, bank stress testing; and carried out other related activities.
Box 3: Moldova’s Growth Challenge

A lack of productive investment and the lack of job creation had set in train a cycle of joblessness, migration and remittances which in turn financed and perpetuated this growth path. Remittances boosted the incomes and consumption of families left behind, but negatively affected competitiveness. Remittances led the exchange rate to appreciate, which in turn led to the real decline in tradeable sectors, more joblessness, and so led to more out-migration and more remittances. Remittance growth will continue to decline in the coming years, as Moldova’s workforce declines with aging, and as families relocate, further underscoring the need for a second growth engine.

Diagram 1: The Cycle of Joblessness, Migration, and Remittances in Moldova

At the heart of the cycle is low average profitability from a poor investment climate characterized by high administrative compliance costs of doing business, discretionary rules and monopolistic practices. Firm-level analysis shows administrative compliance costs are reducing profitability and competitiveness in Moldova, and that exporters suffer the most. High compliance costs within an overregulated economy, coupled with unfair competition are a root cause of Moldova’s limited business expansion, joblessness and limited investment opportunities. Analysis under the CEM concludes that productivity and employment in Moldova’s businesses are adversely affected by: (i) the percentage of management time spent on compliance with government regulations; (ii) the number of inspections from Government officials; (iii) public ownership, and (iv) market dominance and the lack of competition.

The high costs of capital, and limited access to it, are an obstacle to economic recovery and future sustained growth. The CEM analysis also shows that costs of capital are high and are strongly skewed in Moldova in favor of large and publicly owned companies. High costs of capital are something of an oddity in a country in which private nationals’ foreign savings are so high. Part of the cause is that remittances do not yet find their way into the formal financial system. Less than 10 percent of the flow of remittances into Moldova goes through banking sector deposits. Limited retention of remittances within the financial system reduces their potential contribution to balanced growth.

<table>
<thead>
<tr>
<th>DPL Objectives</th>
<th>AAA work 2009-2012</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>POLICY AREA 1: IMPROVE PRODUCTIVITY AND ATTRACT NEW INVESTMENT FOR EXPORTS THROUGH INVESTMENT CLIMATE REFORM</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Remove administrative constraints on business | CEM                | • Reduce the administrative burden of inspections and regulations  
• Elaborate a general framework law to establish risk based inspections and streamlined procedures for all control agencies                                      |
| De-monopolizing domestic market          | CEM                | • Remove regulations that create market dominant buyers and sellers  
• Correct any distortions preventing improvements in trade, productivity and competitiveness  
• Provide farmers with better access to information on new inputs and research (including through training programs and ICT systems) |
| Accelerating farmers’ access to modern technologies | CEM                | • Establish a coordination unit consisting of a chief coordinator and contact points from various Government agencies involved in Food safety management.  
• Eliminate institutional overlapping by creating a single food authority |
| Align Regulations in Food Safety with EU practice | CEM | Moldova. Managing Food Safety and Agricultural Health: an Action Plan  
• Establish a coordination unit consisting of a chief coordinator and contact points from various Government agencies involved in Food safety management.  
• Eliminate institutional overlapping by creating a single food authority |
| **POLICY AREA 2: IMPROVE FINANCE FOR INVESTMENT** |                     |                                                                                                                                                                                                             |
| Improve access to private finance for investment | Technical Note on Capital Market Development, Position note on the Draft Capital Market Law Payment System Modernization Project | • Approve the draft Capital Market Law to provide a strong basis for capital market development that is also consistent with EU Directives.  
• Approve the Law on Payment Services and E-Money that will enhance safety and efficiency of payment services and provide for emergence of licensed non-bank Payment Service Providers.  
• Develop a comprehensive payment systems oversight and cooperation framework.  
• Create an action plan for improving the adoption of electronic payment instruments.  
• Implement fiscal incentives for businesses and consumers to use electronic payments, which will help to curb the shadow economy.  
• Develop a plan for Posta Moldova to become an effective non-bank remittance and payment service provider.  
• Implement the Government’s initiative to require banks to prepare their reports using International Financial Reporting Standards. |
| Discussions with National Bank of Moldova, Ministry of Finance, and Ministry of Economy |                     |                                                                                                                                                                                                             |
V. THE PROPOSED OPERATION

OPERATION DESCRIPTION

47. **The proposed DPO for the amount of US$ 30 million would be a single operation.** The operation will support the Government to implement selected key reforms in the Government Program. The operation is expected to be implemented during the final year of the current CPS period and would consolidate reform efforts in areas directly related to enhancement of competitiveness and balanced growth of Moldova’s economy. After many years of political instability, with the election of the President providing a window for reform implementation, the Government is in the process of translating its medium-term plan into an action plan. To support the first steps in the implementation of key elements of its medium-term plan the DPO is designed to be a stand-alone operation. A new CPS is currently under preparation and expected to be finalized in FY13.

48. **The overarching development objective of the operation is to enhance Moldova’s competitiveness by increasing exports, deepening financial markets, enhancing the development impact of remittances and broadening the drivers of economic growth.** The specific reforms proposed to be supported by the operation are organized around two pillars: (i) improving productivity and attracting new investment for exports through investment climate reform; and (ii) improving finance for investment. The remainder of this section presents the policy areas and actions supported by the proposed operation. It presents the expected prior actions and their projected impact on the economy. Further information on the Government’s reform program in these areas can be found in Section III.

PILLAR 1: IMPROVE PRODUCTIVITY AND ATTRACT NEW INVESTMENT THROUGH INVESTMENT CLIMATE REFORM

49. **Shortcomings in Moldova’s investment climate are limiting the profitability of businesses, and with that, the prospects of attracting new foreign investment and promoting exports, important preconditions for achieving sustainable growth.** Currently the quality of the business environment is negatively affected by high administrative and compliance costs associated with the opacity of regulations and discretionary enforcement of sanctions. The first pillar addresses those aspects of the investment climate which significantly reduce firm-level productivity and profitability, especially for exporters.

(a) **Medium-term objective: Reduce administrative constraints on businesses**

DPO Prior Action: *Enact the Law on Regulation by Means of Authorization of Entrepreneurial Activity to reduce the regulatory burden.*

50. The Law establishes a positive list of required permits; substantially reduces the number of activities subject to required permits; reduces fees paid for the remaining activities subject to permits; introduces the principle “silence is consent” (or introducing an automatic granting of a permit on a lapse of time basis); and introduces the principle of declarative responsibility. The proposed permit’s reform (Guillotine 2+) follows the previously undertaken regulatory Guillotines 1 and 2. This prior action is expected to reduce both time and cost of authorizations faced by entrepreneurs.
51. This prior action was completed with the passage of No.160 “On Regulation by means of authorization of entrepreneurial activity” on July 22, 2011 (and publication in Monitorul Oficial No.170-175/494 on October 14, 2011). The law became effective on April 14, 2012.

DPO Prior Action: Reduce non-tariff barriers to trade by adoption of Government Decision that eliminates the List of Products subject to Mandatory Conformity Certification.

52. The repeal of Government Decision #1469 of December 30, 2004 will enable the Government to remove an obsolete product conformity certification requirement for 12 food product categories and 26 manufactured products. This prior action is expected to reduce time and cost of certification by importers. The implementation of this action will facilitate trade and reduce administrative constraints to trade.

53. This prior action was completed with the passage of the Government Decision No.823 “On abrogation of Government decision 1469 as of December 30, 2004 “On approving the list of regulated products subject to compulsory conformity certification” on November 7, 2011 (and publication in Monitorul Oficial No. 192-196/902 on November 11, 2011). The decision became effective on November 11, 2011.

DPO Prior Action: Enact modifications to the Standardization Law harmonized with the EU Directive 98/34/EC.

54. Modifications to the Standardization Law with the following main changes: voluntary application of standards; standards regulation by the line authority; institutional separation of metrology and standardization; creation of the Standardization Council. The adoption of this measure will facilitate harmonization of Moldovan product standards with EU standards for a significant number of manufacturing products categories. The ultimate dual objective of the action is to increase safety of products for consumers in the domestic market and to enable Moldovan producers to meet product standards demanded by export markets. The expected outcome of this measure is reduced transaction costs for exporters to the EU who will not be required to comply with additional Moldovan product standards.

55. This prior action was completed with the passage of Law No.32 “On Modifications to the Law on Standardization” on March 6, 2012 (and publication in Monitorul Oficial No.76-80/249 on April 20, 2012). The law will become effective on October 20, 2012.

DPO Prior Action: Enact the Law on State Control of Entrepreneurial Activity.

56. The Law on regulation of controls/inspections over entrepreneurial activity will introduce a comprehensive risk assessment as a foundation for enforcement programs. This will release resources from unnecessary inspections redirected towards advice to improve compliance; and streamline overlapping forms and data requirements. This will result in reduction of regulatory interfaces by introducing effective tools to punish persistent offenders and reward compliant behavior by business. Currently 64 authorities are undertaking 14 different types of inspections, of which 30 regulators have overlapping activities. This prior action is expected to reduce the number and the duration of control bodies’ inspectors visits.

57. This prior action was completed with the passage of the Law No.131 “On State Control of entrepreneurial activity” on June 8, 2012 (and publication in Monitorul Oficial No.181-184/595 on August 31, 2012). The law will become effective on March 1, 2013.
**Medium-term objective: Encourage competitive practices in the domestic market**

**DPO Prior Action:** In line with EU and international good practice: (i) Enact the Law on Competition; and (ii) Enact the Law on State Aid.

58. Markets are highly concentrated in Moldova and anti-competition malpractices exist. Market dominant firms are extracting monopolistic profits and firms in more concentrated industries are more profitable than others. The CEM analysis revealed a high (but declining) level of industry concentration in Moldova’s manufacturing sector relative to other neighboring countries. New laws on State Aid and on Protection of Competition will bring Moldova into line with the EU standards. The Law on Competition and the Law on State Aid should align Moldovan practice to the EU standards on dominant market share and cartels; coordination with sector regulators will also be a key element in both the legal framework and its implementation. The EU and Moldova launched the future DCFTA with the EU through implementing all necessary prerequisites, such as competition legislation, inter alia. Implementation of a new Law on the Protection of Competition and Law on State Aid is expected to promote fair competition and encourage entrance of new companies to the market.

59. This prior action was completed with the passage of the Law No. 139 “On State Aid” adopted on June 15, 2012 (and publication in Monitorul Oficial No. 166-169a/565 on August 16, 2012). The Law No. 183 “On Competition” was adopted on July 12, 2012 (and publication in Monitorul Oficial No. 193-197/667 on September 14, 2012). The State Aid law will become effective on August 16, 2013. The Competition law became effective on the date of publication.

**Medium-term objective: Improve farmers’ access to modern technologies**

**DPO Prior Action:** Enact amendments to legislation modernizing procedures for plant variety testing and registration.

60. The legislative package includes four laws: Law on seeds, Law on plant protection, Law on viticulture; Law on orchards that: (i) enables piloting adoption of the EU Common Catalogue for a selected range of crops with obsolete and under-represented varieties (less than 10 varieties per crop) in the national catalogue; and (ii) abolishes the National Council for Plant Varieties and attributes its functions to the testing institution. To be competitive with European producers, Moldova must have quick access to external agricultural technology, however it takes 1 to 3 years to test new seeds and up to 7 years to test new seedlings. The National Seed Commission carries out testing, with the cost borne by seed importers. Subsequently the National Council for Plant Varieties determines whether to approve the tested varieties, after which they are introduced in the national catalogue. Only varieties listed in the national catalogue are officially for sale in Moldova, limiting the choice of varieties available on the domestic seed market and leading to delayed, costly and uncertain farmers’ access to new technologies. This lack of access to new technologies contributes to Moldovan producers’ low and unstable crop yields, and reduces opportunities in new higher value markets. The proposed reforms are expected to lead to improved productivity and competitiveness of Moldovan agricultural produce. Giving farmers access to the newest varieties of seeds and seedlings offered by the EU market will help them compete with EU producers, both on the local market (through import substitution) and in export markets (export expansion). A larger range and better quality of seeds will lead to higher and more stable crop yields, higher quality produce and more diversified range of agricultural...
produce, meaning better market opportunities, higher prices and higher incomes from agriculture.

61. This prior action was completed with the passage of the Law No. 85 “On amendment and completion of some legislative acts” on April 13, 2012 (and publication in Monitorul Oficial No. 120-125/392 from June 15, 2012). The law became effective on June 15, 2012.

(d) Medium-term objective: Advance alignment of food safety regulations with EU practice

DPO Prior Action: Approve (by Government decision) the Food Safety Strategy for 2011-2015 that commit to the unification of food safety functions and regulations in a single agency.

62. The current food safety and quality system overlaps responsibilities among various agencies that ultimately lead to high costs for both the Government and the private sector. Public services for food safety and sanitary and phyto-sanitary (SPS) management do not follow the generally held principles of delineation of tasks between health and agricultural authorities, and separation of responsibilities between standard-setting and food safety management. The objective of this prior action is to eliminate overlapping responsibilities and control functions, for increased access of Moldova agro-food exports to the EU market. Setting the right institutional basis for embarking on the challenging task of achieving compliance with the EU SPS and quality standards is a necessary condition for getting Moldova’s agricultural and food products on the EU market. The Food Safety Strategy provided for the creation of a food safety and quality management system centered on the establishment of a Food Safety Agency (FSA) which would have ample and unique prerogatives in managing food safety and quality in Moldova. The Food Safety Law will ensure the functionality of the FSA.

63. This prior action was completed with the passage of Government Decision #747 "On approving the Food Safety Strategy for years 2011-2015" on October 3, 2011 (and publication in Monitorul Oficial No. 170-175/828 on October 14, 2011).

Pillar 2: Improve Finance for Investment

64. Limited financial intermediation and inefficient allocation of financial resources is a binding constraint to growth in Moldova. Moreover, constrained banking and a poor investment climate meant remittances did not help to finance business investments. The second pillar aims at improving access to private finance for investment through reforms to stimulate bank credit, develop the capital market and improve financial intermediation - particularly for small and medium enterprises, such as rural exporters and enterprises, which are typically established by returning migrants.

(e) Improve access to private finance for investment

DPO Prior Action: Enact the Law on Payment Services and Electronic Money which enables the provision of payment services and e-money products by the banks, non-bank financial institutions and Posta Moldovei.
65. The Law on Payment Service and Electronic Money will provide a clear legal framework governing payment services, allow the appearance of licensed non-bank Payment Service Providers, thus facilitating increasing competition in the provision of payment services and electronic money instruments by banks and non-banks. The Law will enable improved access to payment services provided by non-bank remittance service providers and will make more innovative financial products available for the retention of remittances in the financial sector, which is an important step towards harnessing the large flows of remittances (that now primarily fund consumption) for the development of a more competitive and dynamic economy. Moreover, this law is a pre-requisite to boosting further reforms that will promote faster adoption of cashless payments and will help reduce the incidence of shadow economy in Moldova. This prior action will promote efficiency and safety in payment services and also enable faster adoption of cashless payments and improved access to financial services.

66. This prior action was completed with the passage of the Law No. 114 on “Payment Services and E-Money” on May 18, 2012 (and publication in Monitorul Oficial No. 193-197/661 on September 14, 2012). The law will become effective in one year from the date of publication.

**DPO Prior Action:** *Enact amendments to the Tax Code and related laws to facilitate IFRS implementation by all licensed banks.*

67. The requirement for banks to use International Financial Reporting Standards will harmonize reporting standards for Moldovan banks with the standards used throughout the EU. This is an important step towards economic integration and further economic development. It will improve transparency, increase foreign investor and business confidence in the financial reports of banks (and other Moldovan companies as this requirement is expanded to cover non-bank financial institutions and other joint stock companies). This is expected to lead to increased Foreign Direct Investment and further development of the financial sector in the longer term.

68. This prior action was completed with the passage of the Law No.267 on the amendment of some legislative acts, which includes also the amendments to the Tax Code, regarding IFRS implementation on December 23, 2011 (and publication in Monitorul Oficial No 13-14/32 from January 13, 2012, effective immediately).

**DPO Prior Action:** *Enact the Law on Capital Market to facilitate capital market development in Moldova.*

69. The Law on Capital Market will harmonize the legal framework for the capital market with the legal framework of the EU, which is based on international standards and best practices. The Law will provide for a balance between the alignment with the EU best practices and the level of economic development of Moldova, as it relates to capital requirements for market participants, as well as requirements for stock listing and corporate bonds issuance. Moreover, the Law includes provisions that significantly enhance the safety of the clearing and settlement of securities transactions. This prior action will contribute to the development of a better functioning capital markets, but will require further fine-tuning of the regulatory framework to ensure full compliance with the EU best practices.
This prior action was completed with the passage of The Law No. 171 on “Capital Markets” on July 11, 2012 (and publication in Monitorul Oficial No. 193-197/665 on September 14, 2012). The law will become effective one year from the date of publication.

VI. OPERATION IMPLEMENTATION

POVERTY AND SOCIAL IMPACT

71. The prior action on improving farmers’ access to modern technologies (seeds) is expected to benefit the rural economy, where Moldova’s poorest and most vulnerable people live. The measure supported under the DPO aims at accelerating farmers’ access to new EU varieties, especially for crops with obsolete and under-represented varieties in the national catalogue. While the Government will select the specific crops after the enabling legal framework has been set up, they are likely to include many fruit and vegetables. These tend to be the crops cultivated by small farmers (along with their production of meat and milk products), using intensive agriculture techniques. Improving access to better-performing seeds should raise yields and incomes for these farmers. Currently, there is some smuggling of advanced seeds that are not in the catalogue, especially for grains. The proposed measure is therefore expected to benefit small farmers more than large farmers, in so far as they face greater information and monetary constraints in accessing modern technologies.

72. Likewise, the prior action on the alignment of food regulations with EU practice and the harmonization of product standards with EU standards for a significant number of products is expected to be pro-poor. This measure will directly support the demand for agricultural goods produced by Moldovan farmers and stimulate exports to the EU. This is expected to increase employment and wages in the sector, especially in rural areas. The standardization process will, in the medium-term, focus on standards for food processing and agricultural machinery, thereby supporting technological upgrading in the agribusiness sector. This will benefit farmers (including small farmers who produce fruit and vegetables). The net impact on employment in commercial farms is, however, unknown.

73. The analysis of household budget surveys indicates that enhancing market access is likely to decrease poverty of rural farmers. On the revenue side, farmers gain their incomes from sales and own consumption of meat (accounts for about 15 percent of total revenues), milk (13 percent), grapes and wine (5.1 percent), and vegetables and fruits (13 percent). Access to the EU market will stimulate exports to markets with higher purchasing power. It is estimated that a 10 percent increase in small farmer revenues will decrease the poverty rate by slightly more than 1 percentage point. At the same time the alignment of food regulations and harmonization of product standards with EU practices and standards are expected to increase the cost of production for small farmers due to higher compliance costs. The major part of expenditures of small farmers includes purchasing plants and animals (64 percent), seeds (9.3 percent), fertilizers (3.5 percent). It is estimated that a uniform 10 percent increase in expenditures will increase the poverty rate by about 0.6 percentage points. While precise estimates of compliance costs are currently not available, the net impact on incomes is estimated to be positive. Furthermore, the recently approved Agriculture Competitiveness project provides support to improve marketability and market integration of Moldova’s high value added agriculture products and
enhancing food safety management by providing regulatory and institutional support as well as technical enhancements for food safety management.

74. **The prior actions aimed at increasing access to financial services will in the medium term support growth, through enhanced investment, including foreign direct investment, and indirectly support poverty reduction.** The prior action on enactment of new law on Payment Services and Electronic Money aimed to decrease transaction costs of sending remittances will directly benefit vulnerable households in rural areas. Although poverty remains significantly lower in households receiving remittances, these households share many of the other characteristics of poor households - they tend to be rural, headed by elderly people, and they tend to be farmers. Hence, this measure is a pro-poor action which reduces the risk of remittance-receiving households (especially remittance-receiving farm households) to fall in poverty.

75. **The other prior actions are not expected to have a negative or direct effect on poor people.** The prior actions aimed at removing administrative constraints on businesses, reducing non-tariff barriers and controls/inspections, and enhancing competition, are all expected to stimulate growth and competitiveness, and thereby, indirectly, contribute to poverty reduction. The removal of non-tariff barriers to trade could benefit consumers, but any effects are likely to be small.

**GENDER IMPACT**

76. **The actions under Pillar 1 of this project which support the improvement of the business environment are especially important for women entrepreneurs.** The reduction of the administrative burden of the business regulation and non-tariff barriers to trade are especially important to women owned firms which identify corruption, practices of the informal sector, and tax administration as major obstacles to their businesses – much more so than their male counterparts. According to the 2009 enterprise survey in Moldova, 14 percent of women (vs. 9 percent of men) considered corruption to be the biggest obstacle and an additional 14 percent of women owners vs. only 5 percent of male owners considered “practices of competitors in the informal sector” as the largest impediment. Existing male owned entrepreneurs appeared to be more comfortable with the system and were much more likely to identify access to finance as a major obstacle (22 percent of men vs. 12 percent of women owners).

77. **Actions supported by this operation are likely to have a positive impact in reducing gender disparities in the medium term by promoting employment growth in sectors that have a high share of women’s employment.** Since 2002, the general employment rate in the Republic of Moldova has decreased significantly with a bigger decrease in the level of women’s employment. At the same time, younger women, aged between 15 and 24 years, as well as those with higher education, have a larger unemployment rate than men. Actions supported by this operation will facilitate export growth in agriculture, a sector that has a high share of women’s employment – accounting for 24.5 percent of total woman’s employment in 2010. The largest share of women employed is in services sector. In Chisinau almost 83 percent of employed women are in the service sector. The improvement of business climate will also facilitate growth in the service sector.
Easing access to finance, especially for SMEs, will provide opportunities for women entrepreneurs. The improvements in business environment combined with easing the access to finance will increase economic opportunities of women in both rural and urban areas. Overall, entrepreneurship rates in Moldova among employed persons are low and less than half the ECA average (1.0 percent vs. 2.3 percent). Moreover, Moldovan women are much less likely to be employers than men. For example, 0.6 percent of all employed women are entrepreneurs compared to 1.3 percent of men in Moldova. This gap in entrepreneurship is likely exacerbated by women’s lower utilization of financial accounts for business purposes (0.8 and 1.7 percent of women and men respectively) though men are as likely to take out loans (including personal and business loans) from financial institutions.

ENVIRONMENTAL ASPECTS

The specific reforms proposed under this operation while overall would generate a series of environmental and social benefits they may also cause some adverse impacts. In particular, improving financing would stimulate development and implementation of new investment projects especially in food processing industry. If project Environmental Impact Assessments are not properly conducted, this would generate a series of adverse environmental and health impacts (associated with water and air pollution; solid waste management; occupational hazards; etc). Moreover, improving agricultural productivity and attracting new investments will stimulate an expansion of agriculture exports that may have negative effects for Moldova’s environment and human health by increasing pesticide use in agriculture.

The previous and ongoing Bank operations, in particular IDA “Competitiveness Enhancement” and “Rural Investment and Services II” projects and existing Environmental Assessment capacity in the country would help to ensure that there will be no significant environmental effects from the investment support. The projects’ Environmental Management Frameworks stipulate all Environmental Assessment requirements for proposed sub projects for both rehabilitation and maintenance phases. Furthermore the documents specify these requirements should be included in technical specifications and in the contracts for implementing civil works. Supervision and monitoring of environmental performance of these activities are carried out on the site by the Project Implementation Units Environmental Specialists and overall this is done at a high quality. Furthermore, the Ministry of Environment State Ecological Inspectorate, responsible for reviewing Environmental Impact Assessment studies as well as for conducting state ecological control has adequate capacity to ensure proper enforcement of environmental legislation and implementation of Environmental Management Plans.

The potential increase in pesticides use due to expansion of agricultural exports and its adverse impacts will be addressed by implementing a series of activities, specified in the Environmental Management Framework for the recently approved Agriculture Competitiveness project. The Environmental Management Framework, in particular includes measures to raise awareness and educate potential beneficiaries regarding safe pesticide handling and use of Integrated Pest/Farm Management to enhance sustainability and reduce human and environmental exposure to dangerous products.
IMPLEMENTATION, MONITORING, AND EVALUATION

82. The State Chancellery will steer the administration of this credit, as the main body responsible for policy coordination. The State Chancellery will be responsible for the supervision of this operation and for progress monitoring in the policy areas supported by the operation, using the standardized approach to policy monitoring.

FIDUCIARY ASPECTS

83. Public Financial Management (PFM). The Bank together with other donors will continue to support Moldova in its critical PFM reform agenda and help the Government to enhance the quality of PFM systems, processes and institutions. The priority reform areas include: (i) improving public resource allocation by introducing modern budget preparation practices; (ii) strengthening financial discipline by modernizing the treasury system and budget formulation and execution procedures; (iii) improving public debt management to minimize debt service costs; (iv) improving fiscal administration and increasing the effectiveness of financial controls; (v) increasing the efficiency of public finance management through introduction of an integrated financial management information system; (vi) improving public investment management practices and (vii) harmonizing the budget and fiscal legal framework with European Union standards. As noted in the 2011 PFM assessment based on PEFA methodology, there has been a marked improvement since the 2008 PEFA assessment. Progress achieved in the main areas of PFM reforms and the remaining weaknesses are summarized below.

84. Budgeting. The Government has been consolidating budget formulation and increasing the policy focus of the budgets. There has been considerable improvement in medium term budgeting in recent years. The majority of sector budgets are based on reasonable plans and cost estimates within the aggregate hard budget constraint. However, the extended political campaign continued to affect the policy formulation and budget cycles in 2010 with the FY2011 budget being approved with significant delay in March 2011. Under these circumstances, the link between sector policies and budgets remains weak. Other PFM areas that require strengthening include modernizing the treasury system, consolidating the capacity of public sector audit function, and increasing the effectiveness of financial control.

85. Budget Transparency. In collaboration with the World Bank (under the Bank’s BOOST initiative) Moldova became one of the few countries in the world to publish on the internet item level budget execution data for all institutions in the budget (down to school level). The BOOST database, available at the Ministry of Finance on its website, is a useful analytical tool to monitor the efficiency and transparency of the use of public funds.

86. Internal controls over budget execution. Moldova has made important progress in developing the national treasury system. Controls over budget execution have been significantly strengthened through the gradual expansion of treasury coverage that started in 1997. Significant improvements were made in the last years in functioning of the treasury single account, cash management and forecasting. However, the outcomes of 2010 budget execution confirm that the budget execution procedures are not yet robust enough to assure stable execution of the budget under unfavorable revenue. Accumulation of new expenditure arrears could not be fully prevented in 2009 and the practice of cash rationing - abandoned for many years - had to be re-
introduced. Weaknesses in treasury operations will largely be addressed under the PFM project by developing improved budget execution procedures and creating a comprehensive FMIS.

87. **Procurement.** An assessment of country procurement (CPAR) was conducted by the Bank in 2010 to assist the Government in defining the next phase of procurement reform. Procurement procedures are favorable, but the core challenge is compliance. The practice of single source tendering has been significantly reduced and the percentage of contracts awarded using an open tender procedure has increased. The 2007 Public Procurement Law brought Moldovan legislation in line with international good practice, and provides a good basis for the public procurement system. But there is still room for improvement in the legislative framework. The main challenge is lack of the secondary legislation and inadequate institutional arrangements for a complaints review mechanism. On controls, the Government reorganized the Agency for Material Reserves, Public Procurement and Humanitarian Aid and established the Public Procurement Agency (PPA) in subordination of the Ministry of Finance. Currently, the main objective of the PPA is to align the public procurement system with the EU Directives by the end of 2014. In this context, the public procurement reform agenda has the following priorities: (i) implementation of e-Procurement; (ii) the harmonization of national legislation to EU and WTO Agreement requirements in public procurement; (iii) simplification of the public procurement system, increasing the transparency and efficiency of public procurement procedures; (iv) increase in accountability of persons involved in carrying out public procurement procedures. The Government of Moldova requested an IDF Grant, approved by the Bank in early 2012, with the objective of improving transparency and efficiency of the public procurement system, focusing on design and roll-out of electronic tools for public procurement and procurement capacity development.

88. **Accounting and reporting.** Under the Bank’s PFM project, the Government is changing public sector accounting and reporting. A new integrated budget classification and chart of accounts is being developed on the basis of the GFS2001 standards, to be launched with a new FMIS. It is expected that in the medium-term the Government will maintain cash-based accounting for the treasury and modified cash based accounting for the budget institutions. The new FMIS should enable the Government to produce consolidated financial statements showing the financial position of the Government, not only budget execution reports.

89. **Internal auditing.** Internal audit in the Government is still at an early stage of development. Internal audit units have been established in at the level of line ministries, central agencies and subordinated entities. Their capacity remains weak and their staff is being trained on internal control. In addition, there is a Financial Inspection (FI) under the Ministry of Finance. In most cases, the FI is performing ex-post verification of budget execution. Development of a modern internal audit function within the Government is a component of the PFM project. The goal of the reform is to establish a Public Internal Financial Control system (PIFC) based on the EU model across the budget entities.

90. **External auditing.** The Court of Accounts (CoA) aims to develop into a modern Supreme Audit Institution and has made important steps in that direction over the last few years. A new Law on the CoA in line with international standards was approved in late 2008. The CoA, with the support of the development partners, has made significant progress in implementation of its strategic development plan and is now well advanced in its transformation into an external
audit body using international auditing standards. The CoA has initiated performance audit work, which continues to develop.

91. **Reforms to strengthen the public financial management framework.** Weaknesses in the Moldovan public financial management system are well understood and a broad PFM reform program is under implementation to address them. As a result of these efforts, the credibility of the Moldova PFM framework has been enhanced, as evidenced by improvement of PEFA scores between 2006 and 2010. Major assistance is already being provided by the Bank under the PFM Project, co-financed by SIDA and the Dutch Government. The project is supporting improvements in: (i) budget preparation and execution; (ii) accounting and reporting; (iii) development of FMIS and cash management; (iv) internal auditing; and (v) PFM related training. TA for the Court of Accounts was finalized in December 2011 and the dialogue on the procurement reform agenda is ongoing. The existing instruments mobilized through a concerted multi-donor effort appear to be sufficient to support the critical PFM agenda. The fiduciary risk for the present DPO is therefore regarded as acceptable.

92. **Central Bank and Foreign Exchange Management.** The IMF updated its safeguards assessment of the NBM in 2010 and concluded that the recommendations of the 2006 safeguards assessment have been implemented. The updated assessment provided a set of recommendations focused on mitigating new risks and further strengthening the NBM safeguards framework. NBM financial statements have received unqualified (clean) audit opinions from external auditors Deloitte and Touche (2009) and KPMG (2010 and 2011). In view of this, there are no additional fiduciary safeguards considered necessary as far as management of the foreign exchange is concerned.

**DISBURSEMENT AND AUDITING**

93. **Disbursement and Fund flow.** The proposed loan, US$ 30 million, will follow IDA’s disbursement procedures for development policy loans. The untied finances will be disbursed against satisfactory implementation of the development policy program and not tied to any specific purchases. Once the loan is approved by the Board and becomes effective, the proceeds of the operation will be deposited by IDA into the existing treasury US$ account used for receiving support from donors and for making external payments opened by the Ministry of Finance/State Treasury with the NBM, which forms part of the official foreign exchange reserves. The funds will be used for domestic budget expenditures or repayment of foreign debt. The Recipient shall ensure that upon the deposit of the funds into said account, an equivalent amount is credited in the Recipient’s budget management system, in a manner acceptable to IDA. The Recipient will report to IDA on the amounts deposited in the foreign currency account and credited to the budget management system. If the proceeds of the loan are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Recipient, promptly upon notice from IDA, to refund an amount equal to the amount of said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled.

94. **Accounts and Auditing.** The administration and accounting of the loan proceeds will be the responsibility of the State Treasury of the Ministry of Finance. The standard country rules will be followed by the Treasury for administration and accounting. The Government will maintain accounts and records, or ensure that such items are maintained, showing that credit disbursements were in accordance with provision of the Financing Agreement. Such accounts...
and records will be maintained in a form acceptable to the Bank. The MOF will be responsible for the DPO administration and for preparing the withdrawal application. The DPO will be subject to ratification by Parliament before it becomes effective. The MOF, with the assistance of the NBM, will maintain records of all transactions under the DPO in accordance with sound accounting practices. Within 30 days of the NBM being credited, the MOF will provide to the Bank a confirmation that the amount of the DPO has been credited to an account that is available to finance budgeted expenditures. As Moldova's PFM systems are functioning well and as the fiduciary risk of this operation is deemed to be moderate (as noted in the preceding paragraphs), no audit of the deposit account is required and no additional risk mitigation measures are needed.

**Risks and Risk Mitigation**

95. **This proposed operation faces a number of risks given the continued political uncertainty in Moldova.** The main risks that could subsequently jeopardize achievement of the intended development results include: (i) policy actions may be reversed; (ii) weak implementation capacity might undermine effectiveness of reforms; (iii) the Euro area crisis or other external shocks to economic growth could destabilize reforms; and (iv) financial sector vulnerabilities. The macroeconomic implications of (iii) are discussed in section II.

96. **Reversibility of Policy Actions.** There remains a risk that some measures (for instance in agriculture and deregulation) may be reversed, or that the pace of reform could slow down should there be changes in Government after the next elections. The interests and lobby groups that prevented reform in the past are still present and could regain their strength should there be another change in Government. To mitigate the risk, the Bank team consulted with Parliamentarians and many prior actions required Parliamentary passage of measures, and donors, including the Bank will stay engaged in policy dialogue and implementation support.

97. **Implementation capacity and governance.** The capacity of Public Administration remains weak. The success of the reforms will depend on the Government’s implementation capacity, including the effectiveness of relevant agencies – Food Safety Agency, and Competition Agency. Moreover, weaknesses in governance could potentially undermine the independence and effectiveness of public institutions and agencies. This risk is mitigated by ongoing Technical Assistance undertaken by donors to strengthen the capacity of public administration and selected Agencies. In addition, the legal framework supported by this operation envisions strengthening independence of the Supervisory board of the Completion Agency. Finally, the prior actions aimed at improving the investment climate and encouraging competition help increase transparency and promote good governance.

98. **External shocks.** A small, open and rural economy, Moldova is susceptible to terms of trade shocks and weather-related risks which can affect macroeconomic and fiscal balance. Program design seeks to diversify export markets as well as products, and to improve access to private finance for investment thus reducing reliance on the traditional drivers of growth in Moldova.

99. **Financial sector vulnerabilities.** An increase in non-performing loans (NPLs) could lead to deterioration in the capital adequacy ratio of select public financial institutions with weak governance. The Authorities have identified these risks, including those arising from BEM, and
are taking concrete steps to strengthen supervision and governance. Moreover, the IMF team is supporting Authorities with Technical Assistance and advice to minimize these risks.
ANNEXES
### ANNEX 1. MATRIX OF POLICY ACTIONS AND EXPECTED OUTCOMES

<table>
<thead>
<tr>
<th>DPO PRIOR ACTIONS</th>
<th>INDICATOR</th>
<th>BASELINE</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>POLICY AREA 1: IMPROVE PRODUCTIVITY AND ATTRACT NEW INVESTMENT FOR EXPORTS THROUGH INVESTMENT CLIMATE REFORM</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Medium-term Objective: Reduce administrative constraints on businesses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enact the Law on Regulation by Means of Authorization of Entrepreneurial Activity to reduce the regulatory burden.</td>
<td>Time and average cost of authorizations (based on a sample of 20% most difficult authorizations) reflected in joint Ministry of Economy / IFC Report.</td>
<td>17 days and US$283 on average in 2010</td>
<td>12 days and US$200 on average in 2012</td>
</tr>
<tr>
<td>Reduce non-tariff barriers to trade by adoption of Government Decision that eliminates the List of Products subject to Mandatory Conformity Certification.</td>
<td>Cost compliance savings from mandatory certification abrogation reflected in IFC Report.</td>
<td>14 days and US$192 on average in 2010</td>
<td>10 days and US$100 on average in 2013</td>
</tr>
<tr>
<td>Enact modifications to the Standardization Law harmonized with the EU Directive 98/34/EC.</td>
<td>Proportion of exporters to EU who are also required to meet Moldovan product standards.</td>
<td>100% in 2010</td>
<td>Zero in 2013</td>
</tr>
<tr>
<td>Enact the Law on State Control of Entrepreneurial Activity</td>
<td>Reduction of inspection coverage by reducing the number of inspection bodies</td>
<td>64 inspection bodies in 2010</td>
<td>33 inspection bodies in 2013</td>
</tr>
<tr>
<td><strong>Medium-term Objective: Encourage competitive practices in the domestic market</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In line with EU and international good practice: (i) Enact the Law on Competition; and (ii) Enact the Law on State Aid.</td>
<td>Application of ‘before the court’ mitigation of alleged violations</td>
<td>Zero in August 2012</td>
<td>Applied in 100% cases in 2013</td>
</tr>
<tr>
<td><strong>Medium-term Objective: Improve farmers’ access to modern technologies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enact amendments to legislation modernizing procedures for plant variety testing and Piloting of new varieties for under-represented crops.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

34
<table>
<thead>
<tr>
<th>DPO PRIOR ACTIONS</th>
<th>INDICATOR</th>
<th>BASELINE</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>registration.</td>
<td></td>
<td></td>
<td>covers 10 crops in 2013</td>
</tr>
</tbody>
</table>

*Medium-term Objective: Advance alignment of food safety regulations with EU practice.*

Approve (by Government decision) the Food Safety Strategy for 2011-2015 that commits to the unification of food safety functions and regulations in a single agency.

| Number of agencies engaged in food safety. | Four agencies in 2011 | Single agency in 2013 |

**Policy area 2: Improve finance for investment**

*Medium-term Objective: Improve access to private finance for investment*

Enact the Law on Payment Services and Electronic Money which enables the provision of payment services and e-money products by the banks, non-bank financial institutions and Posta Moldovei.

| Number of licensed non-bank Payment Service Providers. | Zero as of June 2012 | At least 3 by end 2013 |

Enact amendments to the Tax Code and related laws to facilitate IFRS implementation by all licensed banks.

| Proportion of Moldovan commercial banks reporting to international financial reporting standards. | Zero % for financial year 2011 | 100% for financial year 2012 |

Enact the Law on Capital Market to facilitate capital market development in Moldova.
ANNEX 2. LETTER OF DEVELOPMENT POLICY

GUVERNUL REPUBLICII MOLDOVA

Letter with regard to the development policies

ATTN: Mr. Jim Yong Kim
President
World Bank
1818 H Str., N.W.
Washington D.C., 20433

Moldova Economic Growth and Poverty Reduction Reform Program

Dear Mr. Kim,

The actions undertaken by the authorities of the Republic of Moldova with regard to the Letter on the development policies from the year 2006 reveal the improvement of the economic situation: external and structural vulnerabilities have been considerably reduced as a result of some austere monetary and fiscal policies, and structural reforms promotion.

The Government’s general objectives for 2008-2011 were stated in the National Development Strategy (NDS) for 2008-2011 and EU-Republic of Moldova Action Plan. The objectives mentioned in those two strategic documents were implemented only partially due to both external factors, such as global economic and financial crisis of 2008 and floods of 2009, as well as by internal factors, such as limited capacity of the public administration to implement the envisaged policies, their dependency on the decisions of the Parliament in approving the promoted reforms and limited resources available for the implementation of the costly reforms.

In order to broaden the resource framework and to accelerate the speed of achieving the proposed objectives, the Government has succeeded to obtain donors’ commitment to extend Moldova official financial assistance in the amount of USD 2.6 billion at the Consultative Group Meeting with the Donors’ Community that took place in March 2010 in Brussels.

Since the Government finalized the implementation of National Development Strategy in 2011, and in order to ensure the coherency and continuity of policies implemented within policy priorities, a new National Development Strategy - Moldova 2020 had been developed through a transparent consultation process with the stakeholders.

The National Development Strategy - Moldova 2020 offers a general vision on how the Republic of Moldova would look like in 2020 and contains 7 priorities that will lead to economic growth and poverty reduction, and namely:

Casa Guvernului,
MD-2033, Chișinău,
Republica Moldova
Telephone: +373 22 250101
Fax: +373 22 242696

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

Casa Guvernului,
MD-2033, Chișinău,
Republica Moldova
Telephone: +373 22 250101
Fax: +373 22 242696

Government House,
MD-2033, Chișinău,
Moldova (Rep.)
1. Education: relevant for carrier
2. Roads: good, everywhere
3. Finances: accessible and cheap
4. Business: with clear rules of the game
5. Energy: safely provided, efficiently used
6. Pension system: equitable and sustainable
7. Justice: responsible and incorruptible

The consolidated Action Plan 2012-2015 for the implementation of the Government Program served as instrument for the integration of the measures meant to achieve the objectives set in the strategy. This plan shall serve also as basis for the Medium Term Budgetary Framework (MTBF) 2013-2015 and will be updated every year by the Government.

Generally speaking, the Government’s objectives remained unchanged: poverty reduction by ensuring macroeconomic stability and sustainable economic growth. We hope to achieve these goals through public service modernization and liberalization of economy, financial system development, favorable investment environment establishment, motivating small and medium-sized business development, infrastructure rehabilitation, export promotion, creation of new jobs, and social protection of vulnerable strata of the population. These objectives, which include the achievement of Millennium Development Goals, are reflected in the Government Activity Plan as well as in other policy documents.

At the same time, the Government is ready to take action in the case of a new wave of economic crisis. The current strategic planning framework (National Financial Stability Commission) allows the Government to react promptly when economic and social imbalances emerge. Currently it is not considered necessary to develop a new anti-crisis program, it is sufficient to ensure the consistency and continuity of the actions. However, if the economic conditions worsen significantly, the reconsideration of the priority actions will be required under the actual policy framework and future policies and it will be necessary to make the set of anti-crisis reforms more dynamic.

A. Background

I. Poverty profile and evolution

Beginning with 2006, the National Bureau of Statistics had made essential modifications in the Household Budget Survey (HBS). These modifications include change of the sampling framework, improvement of data collection instruments and development of a consolidated social research data collection network. It should be mentioned that the modifications made to the HBS in 2006 have contributed to the improvement of data quality and harmonization of the poverty assessment methodology applied with the international standards. Thus, the 2006 data cannot be compared with the data from the previous years. Due to these considerations, the following analyses were based on 2006-2010 data for comparison purposes; the 2006 data representing the baseline for poverty level assessment in the following years.

In 2010, the poverty level in the Republic of Moldova registered a significant decrease compared to
the previous years. The share of the poor persons with household consumption expenditures below the absolute poverty line accounted for 21.9 percent (compared to 30.2% in 2006) and decreased by 4.4 percentage points compared to 2009. A decrease by 0.7 percentage points was registered in the share of the population with household consumption expenditures under extreme poverty line, which accounted for 1.4 percent in 2010.

The discrepancy between the standard of living in rural and urban areas is still significant. Nevertheless, after the negative evolutions of poverty rate in rural area registered during 2008-2009, a situation reversal was ascertained in 2010. Thus, if in 2009 - 36.3 percent of the rural population was poor then in 2010 the share of poor people in the rural areas has decreased down to 30.3 percent.

The most vulnerable categories of the population exposed to poverty, like in the previous years, are the traditional ones: outnumbered households and those with many children, households that rely on revenues from agricultural activities and the elderly.

It has been acknowledged that 80 percent of the poor live in the rural areas. The household consumption expenditures in rural areas, as well as their available incomes, increased in 2010. This happened because the selling price of agricultural products has increased by 43 percent, thus, increasing the available revenues of the population from the rural areas, and, as a consequence, the reduction of the poverty level in villages.

Likewise, another factor that led to poverty reduction in the rural areas was the increase of remittances sent by the emigrant workers. Thus, the remittances in rural areas have increased by 16 percent. It should be mentioned that during 2010, the revenues obtained from salaries and social benefits increased in rural area, which contributed to the improvement of the situation.

II. Economic growth

During the 2000-2011 period, the real Gross Domestic Product (GDP) was growing on average by 5.1 percent per year; the cumulative growth being equal to 79.1 percent compared to 1999. At the same time, in 2011, the GDP reached a nominal value of MDL 82.2 billion and a real growth rate of 6.4 percent compared to 2010.

The inflation was maintained at a reasonable level, being reduced from 18.4 in 2000 to 7.8 percent in 2011, registering a decline of 0.3 percentage points compared to year 2010.

The exchange rate of the national currency has gradually depreciated helping Moldovan exporters and the reserves of the National Bank of Moldova have increased considerably, reaching the level of USD 2.231 billion (as of 30 August 2012).

A 3.0 percent real GDP growth is foreseen for 2012, based on the growth of the volume of exports as well as of the investments into the economy. Likewise, considerable efforts will be undertaken to decrease the inflation rate to the level of 5.0 percent by end of 2012 and 2013.

The growth rates and the results of economic development will depend to a great extent on the environment related to investment and entrepreneurship activities, both at the national level as well as the local level. In the medium run, the Government will undertake measures to improve
substantially the investment and business environment by promoting stable, transparent, and efficient regulatory policies, by competitiveness development and support to small and medium-sized enterprises. This would mobilize the investments potential of the economy consisting of money transfers/remittances of Moldovans working abroad, resources from the banking sector and shadow economy, official concessional development assistance, as well as foreign direct investments.

Likewise, efforts shall be undertaken to further promote the exports and investments, especially by capitalizing the actions started in 2011 towards continuous liberalization of trade with the EU (negotiations with the EU regarding the RM-EU Free Trade Zone institutionalized in December 2011 as a confirmation of the progress already registered in 2011 in the field of domestic and foreign trade facilitation) and similarly with the CIS (Moldova’s ratification of the Free Trade Agreement with CIS, additionally favored by Russia’s accession to the World Trade Organization in 2011).

III. A viable macroeconomic framework

Budgetary and fiscal policies

In 2011 budgetary policy was aimed to ensure stability of the National Public Budget, to create predictable budgetary and fiscal framework and maintain budget deficit at a reasonable level; promotion of the budgetary-fiscal policy oriented towards sustainable/inclusive economic growth; to ensure discipline, equity, transparency, simplicity and honesty in public finance allocation focused on performance indicators and evaluation of expenditures in line with results achieved.

In this period the efforts were focused on the improvement of efficiency and effectiveness of expenditure programs and on the direction of existing limited resources to programs of vital importance that allow to solve urgent problems without admitting arrears in the budgetary system. Reserves identified as a result of expenditure efficiency programs have been reallocated to finance reforms initiatives and to improve the quality of services provided.

In order to minimize negative impact of the limited available public resource framework on the quality of public services, the measures have been taken to ensure execution of expenditures primarily for implementation of already committed expenditure policies and programs.

In order to improve the utilization of public money the process of gradual implementation of budgetary planning based on programs and performance has been continued.

As a result of the measures undertaken, the revenues of the national public budget in 2011 increased by 9.4 percent compared to the previous year. The expenditures of the national public budget increased compared to 2010 by 9.5%. The policy in the field of public expenditures has continued to be socially oriented, thus, 71.5 percent of the national public budget being directed to the social sphere, and about 11.3 percent of the total public budget expenditures was directed to economic expenditures.
In 2012 Government actions were directed to continue structural reforms and measures of budgetary-fiscal adjustment initiated in 2009-2010. At the same time during already executed period of 2012 the revenues were below planned level partially reflecting slowdown of the economic growth. In order to solve this problem, the package of policy measures was approved that will ensure adequate equilibrium between adjustment to the impact of economic slowdown on revenues and the progress in the area of budgetary-fiscal consolidation in order to maintain the budgetary deficit at the level of 1.3 percent of GDP.

The objective of the budget for 2013 and following years is continuation of the implementation of important structural reforms, at the same time creating conditions for achievement of the objective of sustainability of budgetary and fiscal policy and of financing from the budget of the main expenditures without asking for exceptional external assistance by maintaining of the deficit of the national public budget at sustainable level.

A moderate decrease of public expenditures is foreseen for the next three years as a share of GDP based on consumption level of the public sector in the Gross Domestic Product and on maintenance of budget deficit at sustainable level. The estimates of the medium term resource framework show that the medium term financing possibilities of new expenditure initiatives are limited. That is why the medium term budgetary policy will be focused on:

- **Improvement in the quality of public expenditure programs.** Correct identification of sector policies and increase in operational efficiency of budget expenditures with responsibility for these expenditures assumed by the beneficiaries of budget allocations represents the core objective of public expenditure policy.
- **Allocation of resources to existing commitments.** Limited available public resource framework compared to existing major needs presumes allocation of expenditures mainly for implementation of policies and expenditure programs that represent existing commitments.
- **Allocation of resources for new policy priorities.** New priorities of sector policies can only represent the result of general objectives and priorities of the Government. Public authorities will identify new sector policy priorities only within sector expenditure ceilings by redistribution and re-prioritization of existing expenditure programs, as well as by identification of resource saving measures.
- **Reforming the process of expenditure planning.** Actions related to this objective are derived from the commitment to implement a new budgetary planning methodology together with implementation of new budgetary classification, of new business processes and modern IT procedures aimed to support budgetary process. Gradual implementation of budgetary planning based on programs and performance together with related measures will lead to improved use of public money.
- **Efficiency and effectiveness of expenditures.** This is going to be achieved by the increase of the efficiency and effectiveness of expenditure programs and by directing available resources to programs of vital importance without allowing arrears in the budgetary system. Motivation for identification of potential reserves as a result of expenditure efficiency programs will remain available in the sectors offering the possibility to reallocate for
financing reform initiatives to improve quality of the services provided.

Public expenditure policy for the medium term aim to implement the priorities of the Governance Program “European Integration: Freedom, Democracy, Wellbeing” and other important national programs and strategies as well as consolidation of the management of public resources.

In this sense, in order to ensure the allocation of public resources for state's policy priorities, a special focus will be put on improvement of medium term planning (MTBF). The goal is to facilitate the implementation of government policies by presenting a strategic and predictable framework, where the budgetary planning takes place, by enhancing macroeconomic balance and a financial discipline through realistic budget planning, enhancing the public expenditures effectiveness by ensuring a better link between policies, strategic priorities and public expenditures within and among sectors, ensuring a predictable level of resources allocated to central public authorities for planning and implementation of multiannual expenditures programs and enhancing the transparency and accountability level in the decision-making process regarding the identification of policy priorities and sector expenditure strategies.

The requirement to streamline the use of the existing means by redirecting the resource meant for new policy initiatives becomes more stringent with regards to the need to concentrate the available resources mainly on supporting the major priorities of the National Development Strategy - Moldova 2020.

According to the budgetary-fiscal policy, the corporate income tax (12%) was reinstated in 2012 to balance the budgetary sources of revenues and to reinforce the fiscal base of the budgets of territorial-administrative units. This measure will also lead to more equitable tax system. Thus, the fiscal burden is redistributed from the consumption to the revenues of companies, from the indirect to direct taxes.

In the budgetary-fiscal development process for 2012, in order to not create an additional pressure on the business environment and society hit by the economic crisis, the modifications of the fiscal policy were developed that would not have negative impact on the society. Thus, only a few adjustments have been implemented that did not modify considerably the fiscal regime.

At the same time, the VAT refund administration process was streamlined and the real refund time was considerably reduced, the taxpayers were encouraged to voluntarily comply when declaring and paying the taxes, fees and other payments, the focus being on risk-based fiscal controls/audits and automated informational systems implementation.

In line with this for 2013 the main fiscal measures are:

- Introduction of the standard VAT rate of 20% for primary agricultural production to substitute reduced VAT rate of 8%, in parallel re-funding the amount of VAT related to the difference between 20% and 8%;
- Cancellation of the reduced VAT rate of 8 percent for sugar and sugar beet;
- Increase of the reduced VAT rate for natural and liquid gas from 6% to 8%;
- Increase of the excise rate for tobacco products;
• Introduction of the system of application of indirect methods and sources of estimation of taxable revenues of physical persons with high revenues.

In principle, the budgetary policy is focused on the rationalization and streamlining of public expenditures, as well as on the reallocation of existing resources from the less important programs to priority programs and which have a substantial impact on the economic growth and poverty reduction. The medium-term forecasts will continue to be the main instrument for Government’s policy priority correlation with the available resource framework. Through the MTBF, the proposed sector policies will be subject to the assessment of their financial implications taking into account, also, the eventual reserves in the management manner of the existing resources.

**Monetary policy and exchange rate policy**

In 2012, the National Bank of Moldova will continue to promote prudent monetary and foreign exchange policies in order to achieve the target level of the annual inflation of 5.0 percent.

The current situation requires a more prudential attitude on behalf of all decision-making factors in the field of macroeconomic stability and implementation of measures stimulating the domestic demand and exports, as well as countering the potential adverse effects on the budgetary revenues and economic activity. Under these circumstances, the national economy will register a growth in 2012, although at a much slower pace than it was previously forecasted. Respectively, the deceleration of prices and possible emphasis on deflationary process has reflected the need to relax the monetary policy of the NBM. Therefore, the NBM has decided to reduce the monetary policy interest rate to 4.5 percent per year.

In order to ensure the adequate operation of the interbank monetary market, the NBM will continue to manage firmly the surplus of liquidity through sterilization operations. The respective decision addresses the continuous insurance of a consistent set of monetary conditions meant to achieve the inflation rate convergence with the medium term objective in the context of stimulating the domestic demand by supporting crediting of the real economy. This fact will create immediate preconditions for the moderation of deflationary pressures in their interval of tolerance.

The National Bank of Moldova will link its course of monetary policy towards the internal and external macroeconomic developments with a view to achieve its fundamental objective to ensure and maintain price stability in the medium-term.

**B. Policy implementation**

**I. General provisions**

In order to implement with World Bank’s support the programmed policy actions, the Government has undertook a number of reforms aiming at enhancing the competitiveness of the Republic of Moldova internally and externally based on the following two pillars:

(a) Improving the productivity and attracting the new investments for exports through the investment climate reform;
(b) Improving the access to finance for investments.
As for the 10 policy activities agreed on with the World Bank with a view to the achievement of the program objectives, the Government has registered considerable progress in the implementation of the reform agenda. In some sectors, such as agriculture, investment climate and productivity, the reform program exceeded the expectations, others are still under implementation. The results and policy actions planned for the nearest future are described below.

1. Improve productivity and attract new investments for exports through investment climate reform

The reform of investment climate is the broadest reform compartment that derives from the need to transit to a new economic growth model based on investments and exports. Robust economic growth based on remarkable performance of external trade that followed the 2010 macro-financial stabilization encourages the government’s efforts oriented towards this direction. One of the main objectives of the Government is the establishment of the Deep and Comprehensive Free Trade Area between the Republic of Moldova and European Union, a fact that emphasizes the relevancy of current policies that target the enhancement of internal and external competitiveness of the country. In medium and long run, the free trade with EU countries and CIS has created a predictable framework favorable to foreign and local investments. An excellent result of Government’s reform efforts with regard to business environment enhancement was placing the Republic of Moldova on the second place in the top of reforming countries in accordance with the Doing Business Report 2011, conditioned by the ascension by 18 places in the general classification.

The authorities of the Republic of Moldova have recorded remarkable progress in implementing the policy actions related to the achievement of the assumed commitments during the program:

- On 22 July 2011, the Parliament of the Republic of Moldova adopted the Law on regulation through authorization of the entrepreneurial activity which aims at significantly reducing the regulation burden. This Law sets forth a positive list of necessary permits; drastically reduces the number of activities subject to authorization; decreases the rate of fees paid for authorization-related activities; introduces the principle of tacit authorization and declarative responsibility.
- The Action Plan on the elimination of tariff and non-tariff barriers to trade was approved by Government Decision of 7 November 2011, at the same time, the List of products subject to compulsory certification of conformity was abolished;
- The amendments to the Law on Standardization were approved by Parliament on March 6, 2012. The law will become effective on October 20, 2012. The institutional reorganization will take place by January 1, 2013;
- In order to harmonize the national legislation with the EU legislation, during the period 2008-2009, the Government of the Republic of Moldova approved 4 technical regulations, which are: “Directive on legal requirements for the design, installation and placing on the market of new lifts” (Directive 95/16/CE); “Directive on appliances burning gaseous fuels” (Directive 2009/142/CE); “Pressure equipment directive” (Directive 97/23/CE); Directive on the safety of toys” (Directive 88/378/CEE);

• The Law „On State Control of entrepreneurial activity” was adopted by Parliament on June 8, 2012 which regulates the inspections/audits related to entrepreneurial activity (inspection/audit registry), including risk-based inspection establishment. It will become effective on March 1, 2013;

• The new versions of the Law on State Aid and the draft Law on Competition were approved by the Parliament on 15 June and 12 July respectively. The laws will become effective accordingly on August 16, 2013 and on September 14, 2012;

• On October 3, 2011, the Government approved the Food Safety Strategy for years 2011-2015 that commit to the unification of food safety functions and regulations in a single agency.

2. Improve access to finance for investment

The financial system of the Republic of Moldova is largely dominated by the banking system. This, in turn, has proven to be sufficiently stable and has resisted with relatively small losses on the background of the global financial crisis of 2008-2009. The economic recession has affected the credibility of economic agents leading to the deterioration of the credit portfolio. However, these effects were short term, and the situation has stabilized again along with the economic growth.

Despite the stability of the banking sector, the companies signal limited access to finance, and the financial intermediation level is one of the lowest in the region. Business supporting measures undertaken during the recent years were meant to diminish the impact of the crisis on them, and to stimulate their development by re-launching and developing the instruments of enhancing the access to finance of newly-established and existing companies.

In order to increase the access to finance, the following agreed measures have been implemented:

• On May 18, 2012 the Parliament approved the Law on Payment Services and Electronic Money which enables the provision of payment services and e-money products by the banks, non-bank financial institutions and Posta Moldova;

• On November 23, 2011, the Parliament adopted the amendments to the Tax Code in the part related to facilitate the implementation of international financial reporting standards by the licensed commercial banks;

• On July 11, 2012, the Parliament adopted the new version of the Capital Market Law, which will contribute to the development of capital markets in Moldova.
During 2012, the Government will continue to implement the reforms set forth in the Government Program and will initiate the implementation of the National Development Strategy - Moldova 2020. In this context, the Government will make efforts to accelerate the public administration, justice, and education reforms, pension reform, as well as to ensure the streamlining of the energy sector and transport infrastructure.

Public administration reform

Starting from 2006, the Government has launched the central public administration reform with a view to create a modern and efficient central public administration system in accordance with the principles of good governance of the European Union. The reform implies the transformation and modernization of public administration in the Republic of Moldova by re-organizing the central public administration, optimization of the decision-making process and creation of a professional public service.

As a result of the institutional reorganization of the Government, we succeeded to separate the public policy development functions that relate to the authority of line ministries from implementation functions related to the competence of institutions subordinated to central specialized bodies. At the same time, the delimitation of competences of the Government and central specialized bodies took place with regards to setting the structure, the number of staff, payroll lists and staff employment schemes of the subordinated public institutions. In the context of efficient re-organization of the Government, the Law on Central Specialized Public Administration was approved.

The decision-making process of the Government is being continuously improved. The Law No.239-XVI of 13.11.2008 on Transparency in the Decision-Making Process and the Secondary Normative Framework was approved. As complementary instrument to monitor the observance of the decision-making transparency, the National Council for Participation (www.cnp.md) has been established at the level of the Prime Minister, which has monitoring and evaluation functions.

Another complementary action undertaken by the Government was the launch in June 2011 of the portal www.particip.gov.md which comes as a technical solution (Participation procedure) and represents an interface of the headings Decisional Transparency on all Central Public Administration Authorities portals. As a result, monitoring the observance of the decisions consultation procedures reveal the following progress in the implementation of the Law on transparency in the decision-making process. 84% of the decisions adopted in 2011 have been consulted, compared to 83% in 2010 and only 38% in 2009, when this consultation mechanism was introduced. The Ex-ante Public Policy Impact Assessment Guide was developed and piloted in order to streamline the public policy assessment process. Until now, with the help of the guide there have been developed 31 public policy proposals and other 14 are under the finalization process.

As for public finance management, the new law on public finance and budgetary-fiscal accountability will be adopted, which stipulates the principles and rules for strengthening budgetary-fiscal discipline, as well as transparent procedures with regard to the elaboration and
administration of the national public budget. The budgetary process will be improved by adapting
the MTBF development methodology to the relevant decision-making processes and initiation of
transition towards a program- and performance-based budgeting.

In the context of streamlining the human resource management policies in the public service, Law
No.155 of 21 July 2011 has introduced the Single Classifier of Public Functions, which classifies,
structures, and ranks the public functions on the basis of the public authority’s status, category of
public function, type and level of duty/task complexity.

In order to determine the level of achievement of individual objectives set forth for each public
servant based on activity strategic objectives of public authorities, the public servant professional
performance evaluation procedure has been applied. The data reveals an increasing evolution of
investments in human resources from the public service, made from the financial sources of the
development partners.

The activities regarding the decentralization and local autonomy consolidation have advanced, and
as a result, the National Decentralization Strategy was adopted. At the same time, the institutional
framework for drafting sector strategies by fields subject to decentralization has been developed.
The cooperation with the I and II local public administration authorities has been extended within
these communication platforms.

The re-examination of duties assigned to mayoralties and local councils, in accordance with the
decentralization principles, has allowed for the development of the Classifier of Competences of
Local Public Administration, which will lay the basis for fiscal and patrimony/heritage
decentralization. According to the decentralization agenda, activities aimed at fostering the inter-
municipal cooperation have been launched. In this sense, the International Guide for Inter-
community Cooperation was adapted to the context of the Republic of Moldova, and proposals to
modify the legal framework related to the cooperation of local public administration authorities
have been identified.

In order to accelerate the public administration reform, the Government’s e-transformation process
has been launched with the support of the Governance E-Transformation Project (GET). Within the
Project, the Strategic Program for Technological Modernization of e-Governance has been
developed to render services to the citizens.

In order to streamline public procurement, along with the approval of AIS “State Public
Procurement Registry” through a technical concept, the implementation of the e-Procurement
System has been launched. Thus, the goal shall be the improvement of the current regulations in
the public procurement field, with a view to the facilitation of the access of small and medium sized
enterprises to public procurement contracts; a Study on the opportunity to introduce compulsory
implementation of the public procurement procedure for the state-owned enterprises should be
developed, etc.

Taking into consideration the progress recorded and the objectives set forth in the Government’s
Activity Program, efforts will be undertaken to develop and implement systems of documents and
normative acts circulation, including by introducing documents electronic registration, distribution, and monitoring systems, as well as by improving the petition management process, enhancing the consistency in the decision-making process, correlation level of public policies and budgetary resources by introducing the program-based budgets, etc.

Likewise, the Government sets its goal to identify and approve the set of legal proposals regarding local public finances and patrimony/heritage decentralization, creation of an adequate legal framework for the implementation of inter-municipal cooperation projects with a view to rendering general services, consolidation of communication platforms with the representatives of local public administration, civil society, social and development partners, academic and scientific environment, etc.

In 2012, the actions of the Government are directed mainly towards the creation of the Government Portal (www.servicii.gov.md) – public service one-stop-shop for the citizens, mobile electronic authentication – the citizens will be able to have transactions with the state and to access online public services by authenticating themselves by means of a mobile phone (the digital signature will be placed on the SIM card). This will allow for more services to be provided to the citizens via mobile telephones, including online payment for public services; launching 4 e-services: e-license, e-legislation for construction permits, online police clearance (criminal track record) application, NHIC registration of employees by the company, launching the electronic payment system for public services – citizens will be able to pay online for public services. This system will be used by all central public administration authorities and will ensure secure financial transactions between the citizen and the state. The electronic personal data registry will be created, this being a condition of the Action Plan on Visa Liberalization with EU. Module I of the e-public procurement system will be created.

Justice reform

The adoption in 2011 of the Justice Reform Strategy for 2011-2016, as well as the Action Plan for its implementation, has initiated radical transformations in this field.

In order to apply uniformly the load of cases per judge based on their complexity, the Regulation on establishing the single national complexity levels/degrees of civil, criminal and contravention cases has been approved.

In order to ensure the publication of all court rulings and extend the public access to case files, the 2.0 version of the Consolidated Case Management Program has been launched, which was completed with the case complexity indicator. The enhancement of capacities in the field of legal assistance guaranteed by the State and financial management in courts was ensured.

At the same time, the drafts of forensic institution reform, technical and scientific and medical-legal findings, the General Prosecutor’s Office, notary, paralegals, as well as authorized administrators have been developed and are being promoted.
In order to fight against a classical scheme of hostile take-over of significant blocks of shares in some commercial banks (raider attack), the Government acted rapidly and univocally, including through important modifications in the justice field. These pertain to more strict regulations regarding the transactions with securities, enhanced supervision role of the National Bank of Moldova, execution of only irrevocable court rulings.

In the next period, the efforts of the Government will be guided by the implementation of the Action Plan provisions on Justice Reform Strategy, implementation and objectives set forth in the National Development Strategy - Moldova 2020. The main actions will aim at the promotion of the principle of zero tolerance towards corruption in justice, judicial system performance analysis methodology development, consolidation of the mediation institution, etc.

Energy system reform

Taking into account the current situation in the energy sector from the Republic of Moldova, the Government has launched its rehabilitation process. An important achievement in the energy sector was the creation of the Energy Efficiency Agency, its operation being guaranteed, including by developing the legal framework in the field: Law on Energy Efficiency and National Energy Efficiency Program for 2011-2020.

At the same time, the Energy and Biomass Project for 2011-2014 has been launched, during which the implementation of 35 biomass-based energy generation projects has started in 2011. Two projects have been already finalized, and 65 (cumulatively) biomass-based energy generation projects are planned to be implemented in 2012.

In medium and long term, the Government will make efforts to achieve its double objectives in the energy field - ensuring State’s energy security and enhancing energy efficiency, which are set forth in the National Development Strategy - Moldova 2020.

The consolidation of energy security will be achieved through the liberalization of the energy market in accordance with the provisions of the Energy Community Treaty, integration of the Republic of Moldova in the European energy market, development of interconnections for energy resources transmission. At the same time, a special focus will be on streamlining the energetic mix, diversification of energy resources, as well as creation of new energy generation capacities.

The provision of energy efficiency will take place by: diminishing the energy intensity in the residential sector, industry, transport and agriculture, modernization of the energy system, implementation of energy efficient technologies, involvement of own energy resources, including the renewable resources. A major importance will be paid to the public awareness campaigns with regard to the need to save energy, including by encouraging the population to procure communal services (utilities), construction materials, accommodation, and appliances with low energy impact. The energy saving will have a favorable impact on the environment.

Transport infrastructure

According to the objectives of the Land Transport Infrastructure Strategy for 2008-2017, the road
transport infrastructure reform includes the development of infrastructure with further enhancement of quality and integration in the European transport networks, improvement of transport infrastructure maintenance procedures in order to achieve a more efficient and sustainable maintenance and management system and negotiation with international financial institutions loans for projects for reconstruction of national roads of European importance.

In 2011, in order to promote the Republic of Moldova as transit country and to align the domestic transport with European transport conditions, the focus was on roads rehabilitation by implementing recycling technologies on existing road systems. 170 km of road was repaired by means of bituminous treatment using modern equipment and bituminous emulsion.

Creation of a sustainable and transparent road financing system is a priority on the central and local public administration agenda, which is set forth in the National Development Strategy – Moldova 2020. The Government plans to invest more in this sector, including by increasing the annual budgetary allocations while focusing on the maintenance and reparation of roads to reduce the length of national roads in bad condition.

The estimated calculations made in the National Development Strategy – Moldova 2020 shows that current maintenance and reparation of national and local roads will cost annually about MDL 4.2 billion. At the same time, the capital reconstruction of over 400 km of roads has been planned for 2011-14 from external funds that account for Euro 334 million. Thus, with a view to the achievement of the target before the expiration of this strategy, it is necessary to mobilize additional internal and external funds in the amount of Euro 1.1 billion.

In this context, the Government will explore the potential offered by the public-private partnership in the field of road infrastructure, transport-related logistics services and road infrastructure-related services. The Government will also make efforts to organize transparent public procurement by favoring the offers that imply advanced technologies and ensure a more effective control over the quality of executed works. The road maintenance companies are planned to be re-organized and modernized by 2013, and the implementation of the road maintenance method through multi-annual contracts shall take place by 2015.

**Education reform**

The Government has initiated the education system reform process, having achieved notable progress at certain education levels. The education system reform process has been intensified; the National Action Plan for the implementation of the structural reform in the education field being approved. According to the document, as a result of the rationalization of 1044 classes and reorganization of 378 schools, about MDL 230 million shall be saved, money to be invested in the enhancement of the quality of the educational process.

There were created the conditions necessary to apply the new financing formula in another 9 rayons and Chisinau and Balti municipalities beginning with the new budgetary year.

Among the main achievements of the Government it is worth mentioning the finalization of the
Education Code, approval of the Inclusive Education Development Program in the Republic of Moldova for 2011-2020, which implementation involved the reintegration of 300 children with special education needs from residential institutions into families and their continuous education in general education institutions, etc.

The Government’s education policy will be directed towards ensuring the quality of education at all education levels. At the same time, an important focus will be on the finalization of the compulsory general education reform and ensuring a qualitative education offer on the labor market.

Ultimately, I would like to use this opportunity to assure you that the Government is fully determined and committed to continue the reforms necessary to improve the performance in the priority fields, such as governance, infrastructure, health, education and social services improvement and to offer a new boost to the private sector development aiming at providing qualitative services to the citizens of the republic and ensuring sustainable development of the country. I am confident that the country can count on the continuous support of the World Bank and your personal support.

Prime Minister of the Republic of Moldova

Vladimir FILAT
ANNEX 3. IMF ASSESMENT LETTER

Republic of Moldova—Assessment Letter for the World Bank

September 18, 2012

This note provides the IMF staff’s assessment of macroeconomic prospects and policies in Moldova. The assessment is based on findings of a mission in May 2012 on the Article IV Consultation and Fifth Reviews under the Extended Credit Facility/Extended Fund Facility (ECF/EFF) arrangements, and subsequent developments.

Recent Developments and Outlook

1. Economic activity slowed markedly in early 2012, largely due to weakening external conditions and harsh winter conditions. Real GDP growth slowed to 1 percent y-o-y in Q1 2012 while export growth to the EU dwindled and domestic demand subsided in line with weakening remittances and capital inflows. Inflation decelerated rapidly in the first quarter and stabilized since then around 4 percent.

2. The economy is expected to pick up in the near term, but serious downside risks remain. GDP is projected to grow by 3 percent in 2012 and 5 percent in 2013, supported by resilient conditions in the CIS, robust credit growth, and investment in infrastructure. Inflation would remain within the NBM target band of 5±1.5 percent. The relatively large current account deficit (12.7 percent of GDP in 2011) is expected to decline gradually over the medium term as the economy builds further export-oriented capacity and gains greater access to external markets. The severe drought that has hit Moldova over the summer may dampen the growth outlook, while a deterioration of the euro area crisis would significantly depress the economy through its impact on remittances, exports, and capital inflows.

3. Revenue shortfalls and policy slippages in early 2012 have put the program’s fiscal targets at risk. Revenue in H1 came significantly lower than expected, due partly to the slowing economy and partly to increased losses from tax loopholes and collection problems. Moreover, new spending commitments, including a delay in social assistance reforms, and a Chișinău municipality budget that nearly doubled its originally planned deficit, jeopardized the 2012 general government budget.

4. The banking sector is broadly sound, but developments at the majority state-owned Banca de Economii (BEM) are a concern. Banks are generally liquid, well-capitalized, and profitable, although their nonperforming loans (NPLs) have risen somewhat as the economy slowed. The euro area debt crisis has had little direct effect on the financial system owing to limited links with banks in affected countries. However, risky lending practices and poor governance have significantly weakened BEM’s asset portfolio and necessitated a large increase in provisions, bringing its capital below the statutory minimum. The bank, which accounts for about 13 percent of total assets in the banking sector and holds the largest number of individual deposits, requires urgent measures to repair its balance sheet and improve risk management.
5. **The Fund-supported program is broadly on track, with corrective measures agreed to address slippages in the first half of the year.** The quantitative targets for the first half of 2012 have been met except those for the budget deficit and government arrears. The relevant structural benchmarks have also been met, except the one on the parliamentary passage of legal amendments to strengthen bank shareholder transparency. Fund staff and the authorities agreed on corrective measures to overcome these policy slippages.

- **Fiscal Policy:** The authorities have passed a set of revenue-enhancing measures to close tax loopholes, notably on VAT and car registration, and strengthen collections. These measures, together with expenditure reprioritization to offset earlier slippages, allowed them to target in 2012 a general government deficit of 1.3 percent of GDP that brings fiscal consolidation back on track while accommodating the current cyclical downturn. Moreover, the Chișinău municipality has amended its budget in line with this target and has essentially cleared its arrears by end-August 2012. In view of the expected decline in international grant assistance over the medium term, the authorities appropriately plan to continue with further reform-based rationalization of current expenditure and strengthening of tax revenue.

- **Monetary and Financial Policies:** The NBM’s sharp interest rate cuts in late 2011 and early 2012 have supported healthy credit growth and thus cushioned the slowing economic activity. The bank’s recent international reserve build-up is appropriate in view of the uncertain external environment and the large current account deficit. The new BEM management has begun the process of ensuring sound lending practices, cleaning the balance sheet, and disposing of collateral to rebuild capital. Moreover, the authorities have passed the delayed legal amendments to facilitate restructuring of nonperforming bank loans and are working on another set of amendments to raise bank shareholders transparency.

- **Structural reforms:** The government is focused on improving the business climate to foster investment and raise growth potential through privatizing state enterprises, providing stable policy environment, and strengthening the judicial system.

**Relations with the Fund**

6. **The IMF Executive Board consideration of the fifth reviews under the ECF/EFF arrangements is scheduled on September 28, 2012.** The three-year arrangements for Moldova under the ECF/EFF, providing combined financial assistance of SDR 369.6 million, were approved by the IMF Executive Board on January 29, 2010. Four reviews have been completed so far, releasing disbursements of SDR 270 million in total.
## ANNEX 4. MOLDOVA AT A GLANCE

### Moldova at a glance

#### Key Development Indicators

| Indicator                                                      | Moldova | Europe & Central Asia | Lower middle income |
| Population, mid-year (millions)                              | 3.6     | 405                   | 2,519               |
| Surface area (thousand sq. km)                               | 34      | 23,614                | 23,579              |
| Population growth (%)                                        | 0.0     | 0.4                   | 1.5                 |
| Urban population (% of total population)                      | 41      | 64                    | 39                  |
| GNI (Atlas method, US$ billions)                             | 7.1     | 2,947                 | 4,078               |
| GNI per capita (Atlas method, US$)                           | 1,980   | 7,272                 | 1,619               |
| GNI per capita (PPP, international $)                        | 3,360   | 13,396                | 3,632               |
| GDP growth (%)                                               | 6.4     | 5.7                   | 6.9                 |
| GDP per capita growth (%)                                    | 6.5     | 5.3                   | 5.3                 |

#### (most recent estimate, 2005–2011)

- Poverty headcount ratio at $1.25 a day (PPP, %): <2 0 ..
- Poverty headcount ratio at $2.00 a day (PPP, %): 4 2 ..
- Life expectancy at birth (years): 68 71 65
- Infant mortality (per 1,000 live births): 19 19 50
- Child malnutrition (% of children under 5): 4 2 25
- Adult literacy, male (% of ages 15 and older): 99 99 80
- Adult literacy, female (% of ages 15 and older): 98 97 62
- Gross primary enrollment, male (% of age group): 93 99 110
- Gross primary enrollment, female (% of age group): 92 98 104
- Access to an improved water source (% of population): 46 96 87
- Access to improved sanitation facilities (% of population): 44 84 47

#### Net Aid Flows

<table>
<thead>
<tr>
<th>Year</th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
<th>2011 *</th>
</tr>
</thead>
<tbody>
<tr>
<td>(US$ millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net ODA and official aid</td>
<td>10</td>
<td>123</td>
<td>468</td>
<td></td>
</tr>
<tr>
<td>Top 3 donors (in 2010):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Union Institutions</td>
<td>0</td>
<td>5</td>
<td>138</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>9</td>
<td>35</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0</td>
<td>1</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Aid (% of GNI)</td>
<td>0.4</td>
<td>9.4</td>
<td>7.4</td>
<td></td>
</tr>
<tr>
<td>Aid per capita (US$)</td>
<td>3</td>
<td>34</td>
<td>131</td>
<td></td>
</tr>
</tbody>
</table>

#### Long-Term Economic Trends

- Consumer prices (annual % change): .. 788.5 31.2 7.6
- GDP implicit deflator (annual % change): .. 13.5 27.3 7.4
- Exchange rate (annual average, local per US$): .. 0.0 12.4 11.7
- Terms of trade index (2000 = 100): .. 100 127
- Population, mid-year (millions): 4.0 4.4 3.6 3.6
- GDP (US$ millions): 3,593 1,288 7,001
- (of GDP) Agriculture: 36.1 29.0 14.8
- Industry: 36.7 21.7 13.9
- Manufacturing: 36.0 16.3 13.5
- Services: 27.2 19.2 71.3
- Household final consumption expenditure: 57.5 91.4 96.2
- General govt final consumption expenditure: 15.1 10.3 20.5
- Gross capital formation: 24.9 23.9 24.5
- Exports of goods and services: 48.2 49.8 45.0
- Imports of goods and services: 50.6 75.4 86.2
- Gross savings: 58.1 16.3 12.0

#### Note:
- Figures in italics are for years other than those specified. 2011 data are preliminary. .. indicates data are not available.
- Aid data are for 2010.

Development Economics, Development Data Group (DECDG).
Balance of Payments and Trade 2000 2011

(US$ millions)

- Total merchandise exports (fob) 477 2,282
- Total merchandise imports (cif) 793 5,192
- Net trade in goods and services -331 -2,895
- Current account balance as a % of GDP -7.6 -12.6
- Workers’ remittances and compensation of employees (receipts) 179 1,370
- Reserves, including gold 218 1,965

Central Government Finance

(\% of GDP)

- Current revenue (including grants) 31.9 35.9
- Tax revenue 25.0 30.9
- Current expenditure 34.7 34.0
- Overall surplus/deficit -2.6 -2.4
- Highest marginal tax rate (\%)
  - Individual – –
  - Corporate – –

External Debt and Resource Flows

(US$ millions)

- Total debt outstanding and disbursed 1,693 4,716
- Debt relief (HIPC, MDRI) – –
- Total debt (\% of GDP) 131.4 67.4
- Total debt service (\% of exports) 18.1 9.3
- Foreign direct investment (net inflows) 127 0
- Portfolio equity (net inflows) 117 0

Composition of total external debt, 2011

Private Sector Development

2000 2011

- Time required to start a business (days) – 9
- Cost to start a business (\% of GNI per capita) – 10.9
- Time required to register property (days) – 5
- Ranked as a major constraint to business
  (% of managers surveyed who agreed) 2000 2010
    - Access to cost of financing – 40.4
    - Tax rates – 37.2
- Stock market capitalization (\% of GDP) 3.2 –
- Bank capital to asset ratio (\%) 30.6 16.0

Governance indicators, 2000 and 2010

Technology and Infrastructure 2000 2010

- Paved roads (% of total) 86.1 85.8
- Fixed line and mobile phone subscribers (per 100 people) 20 121
- High technology exports (% of manufactured exports) 3.1 8.3

Environment

- Agricultural land (% of land area) 77 75
- Forest area (% of land area) 9.9 10.7
- Terrestrial protected areas (% of land area) 1.4 1.4
- Freshwater resources per capita (cu. meters) 276 280
- Freshwater withdrawal (billion cubic meters) – –
- CO2 emissions per capita (mt) 0.97 1.3
- GDP per unit of energy use (2005 PPP $ per kg of oil equivalent) 2.1 3.8
- Energy use per capita (kg of oil equivalent) 782 687

World Bank Group portfolio 2000 2010

(US$ millions)

- IBRD
  - Total debt outstanding and disbursed 191 93
  - Disbursements 6 0
  - Principal repayments 5 18
  - Interest payments 11 1
- IDA
  - Total debt outstanding and disbursed 103 386
  - Disbursements 30 64
  - Total debt service 1 7
- IFC (fiscal year)
  - Total disbursed and outstanding portfolio 35 17
    - of which IFC own account 19 17
    - Disbursements for IFC own account 1 9
    - Portfolio sales, prepayments and repayments for IFC own account 0 7
- MIGA
  - Gross exposure 3 74
  - New guarantees 3 4

Note: Figures in italics are for years other than those specified. 2011 data are preliminary.
.. indicates data are not available. – indicates observation is not applicable.

Development Economics, Development Data Group (DECDG).
### Millennium Development Goals

**Moldova**

*With selected targets to achieve between 1990 and 2015 (estimate closest to date shown, +/- 2 years)*

#### Goal 1: Halve the rates for extreme poverty and malnutrition

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty headcount ratio at $1.25 a day (PPP, % of population)</td>
<td>17.0</td>
<td>15.1</td>
<td>26.5</td>
<td>&lt;2</td>
</tr>
<tr>
<td>Poverty headcount ratio at national poverty line (% of population)</td>
<td>..</td>
<td>..</td>
<td>62.4</td>
<td>30.2</td>
</tr>
<tr>
<td>Share of income or consumption to the poorest quintile (%)</td>
<td>6.9</td>
<td>6.5</td>
<td>7.1</td>
<td>..</td>
</tr>
<tr>
<td>Prevalence of malnutrition (% of children under 5)</td>
<td>..</td>
<td>3.2</td>
<td>..</td>
<td>4.3</td>
</tr>
</tbody>
</table>

#### Goal 2: Ensure that children are able to complete primary schooling

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school enrollment (net, %)</td>
<td>89</td>
<td>..</td>
<td>89</td>
<td>86</td>
</tr>
<tr>
<td>Primary completion rate (% of relevant age group)</td>
<td>..</td>
<td>94</td>
<td>98</td>
<td>93</td>
</tr>
<tr>
<td>Secondary school enrollment (gross, %)</td>
<td>94</td>
<td>81</td>
<td>82</td>
<td>88</td>
</tr>
<tr>
<td>Youth literacy rate (% of people ages 15-24)</td>
<td>99</td>
<td>99</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

#### Goal 3: Eliminate gender disparity in education and empower women

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of girls to boys in primary and secondary education (%)</td>
<td>105</td>
<td>..</td>
<td>99</td>
<td>102</td>
</tr>
<tr>
<td>Women employed in the nonagricultural sector (% of nonagricultural employment)</td>
<td>49</td>
<td>50</td>
<td>53</td>
<td>70</td>
</tr>
<tr>
<td>Proportion of seats held by women in national parliament (%)</td>
<td>..</td>
<td>5</td>
<td>9</td>
<td>22</td>
</tr>
</tbody>
</table>

#### Goal 4: Reduce under-5 mortality by two-thirds

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under-5 mortality rate (per 1,000)</td>
<td>35</td>
<td>30</td>
<td>26</td>
<td>21</td>
</tr>
<tr>
<td>Infant mortality rate (per 1,000 live births)</td>
<td>29</td>
<td>25</td>
<td>22</td>
<td>19</td>
</tr>
<tr>
<td>Measles immunization (proportion of one-year-olds immunized, %)</td>
<td>92</td>
<td>99</td>
<td>87</td>
<td>96</td>
</tr>
</tbody>
</table>

#### Goal 5: Reduce maternal mortality by three-fourths

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maternal mortality ratio (modeled estimate, per 100,000 live births)</td>
<td>..</td>
<td>..</td>
<td>36</td>
<td>16</td>
</tr>
<tr>
<td>Births attended by skilled health staff (% of total)</td>
<td>..</td>
<td>99</td>
<td>..</td>
<td>100</td>
</tr>
<tr>
<td>Contraceptive prevalence (% of women ages 15-49)</td>
<td>..</td>
<td>74</td>
<td>62</td>
<td>68</td>
</tr>
</tbody>
</table>

#### Goal 6: Halt and begin to reverse the spread of HIV/AIDS and other major diseases

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevalence of HIV (% of population ages 15-49)</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Incidence of tuberculosis (per 100,000 people)</td>
<td>64</td>
<td>91</td>
<td>138</td>
<td>138</td>
</tr>
<tr>
<td>Tuberculosis case detection rate (%, all forms)</td>
<td>35</td>
<td>59</td>
<td>52</td>
<td>63</td>
</tr>
</tbody>
</table>

#### Goal 7: Halve the proportion of people without sustainable access to basic needs

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to an improved water source (% of population)</td>
<td>..</td>
<td>..</td>
<td>92</td>
<td>92</td>
</tr>
<tr>
<td>Access to improved sanitation facilities (% of population)</td>
<td>..</td>
<td>68</td>
<td>68</td>
<td>44</td>
</tr>
<tr>
<td>Forest area (% of land area)</td>
<td>9.7</td>
<td>..</td>
<td>9.9</td>
<td>10.7</td>
</tr>
<tr>
<td>Terrestrial protected areas (% of land area)</td>
<td>0.9</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>CO2 emissions (metric tons per capita)</td>
<td>5.7</td>
<td>3.0</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)</td>
<td>1.7</td>
<td>1.5</td>
<td>2.1</td>
<td>3.8</td>
</tr>
</tbody>
</table>

#### Goal 8: Develop a global partnership for development

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone mainlines (per 100 people)</td>
<td>12.5</td>
<td>15.4</td>
<td>16.0</td>
<td>32.6</td>
</tr>
<tr>
<td>Mobile phone subscribers (per 100 people)</td>
<td>0.0</td>
<td>0.0</td>
<td>3.8</td>
<td>88.9</td>
</tr>
<tr>
<td>Internet users (per 100 people)</td>
<td>0.0</td>
<td>0.0</td>
<td>1.4</td>
<td>40.1</td>
</tr>
<tr>
<td>Computer users (per 100 people)</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>42.4</td>
</tr>
</tbody>
</table>

#### Education indicators (%)

- Primary net enrollment ratio
- Ratio of girls to boys in primary & secondary education

#### Measles immunization (% of 1-year olds)

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moldova</td>
<td>92</td>
<td>99</td>
<td>87</td>
<td>96</td>
</tr>
</tbody>
</table>

#### ICT indicators (per 100 people)

- Fixed + mobile subscribers
- Internet users
- Computer users

Note: Figures in italics are for years other than those specified. .. indicates data are not available.

Development Economics, Development Data Group (DECDG).