



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/21/2002	
<b>PROJ ID:</b> P061496		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Sac	<b>Project Costs (US\$M)</b>	40	65
<b>Country:</b> Moldova	<b>Loan/Credit (US\$M)</b>	40	45
<b>Sector(s):</b> Board: EP - General agriculture fishing and forestry sector (31%), Power (31%), Central government administration (15%), General industry and trade sector (14%), Housing finance and real estate markets (9%)	<b>Cofinancing (US\$M)</b>	0	20
<b>L/C Number:</b> C3256			
	<b>Board Approval (FY)</b>		99
<b>Partners involved :</b> Government of the Netherlands	<b>Closing Date</b>	12/31/2000	12/31/2001
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

Original project objectives were to support the Government's reform program by: (1) Ensuring the social and economic sustainability of fiscal adjustment; (2) Laying further foundation for land reform, agricultural growth, and rural development; (3) Restoring the financial viability of energy providers, improving the efficiency of energy usage, and ensuring a reliable energy supply to all paying customers; (4) Supporting private sector development by facilitating investment and restructuring by strategic partners, and laying the foundation for growth in incomes and outputs of small and medium enterprises. In September, 2001, a further objective was added, (5) Mitigating the financial cost to Government of repairing damage from the severe ice storm of November, 2000.

**b. Components**

**(1) Ensuring social and economic sustainability of fiscal adjustment** : Maintenance of a satisfactory macroeconomic framework; satisfactory implementation of the 1999 budget; **(2) Laying further foundation for land reform, agricultural growth, and rural development** : Adoption of law for expedited settlement of farm debt; satisfactory progress toward completion of National Farm Restructuring Program (NFRP); continued progress in titling agricultural land; taxation and subsidy policy in conformance with Agricultural Taxation and Subsidy Study; no Government interference in grain market; proper implementation of Agricultural Support Fund (ASF); **(3) Restoring financial viability of energy providers, improving energy efficiency, and ensuring reliable energy supply to all paying customers**: Creation of independent energy regulatory authority, ANRE; ANRE established, funded, and with clear authority; satisfactory implementation of energy sector debt restructuring; all "privileges" (subsidies) for energy consumption abolished; satisfactory progress in making payments from budget to the energy sector; satisfactory progress in privatization/divestiture of remaining state-owned shares of Moldovagas; progress in implementing Government's restructuring plan and performance contracts for district heating; **(4) Supporting private sector development by facilitating investment and restructuring by strategic partners, and laying the foundation for growth of small and medium enterprises** : Satisfactory implementation of the 1999-2000 Privatization Plan, including: privatization of leased premises and additional land under privatized firms; offer for sale of residual state shares in JSCs which participated in mass privatization; offer for sale of controlling interest in 30 JSCs which could be of interest to strategic investors; hire financial advisors for at least 2 wine combinats; privatize ten remaining Cereale units; creation of telecom regulatory agency; hire investment bank to prepare Moldtelecom for privatization; **(5) Mitigating cost of repairing damage from the November, 2000, ice storm.**

**c. Comments on Project Cost, Financing and Dates**

The original project cost was US\$40 million--all financed by IDA--which was to be released in two tranches. The first tranche of US\$20 million was released upon effectiveness in August, 1999, while the second--originally projected for

release around December, 1999--was actually released in December, 2000. At the time of the second tranche release, the Government of the Netherlands decided to support the program with a US\$ 10 million grant. In December, 2001, a supplemental IDA grant of US\$5 million was approved to mitigate the budgetary impact of the ice storm damage, and at that time the Government of the Netherlands approved a further grant of US\$ 10 million. Thus, by project close, total costs and financing had increased to US\$ 65 million, of which US\$45 million from IDA and US\$20 million for the Government of the Netherlands.

### 3. Achievement of Relevant Objectives:

**(1) Ensuring social and economic sustainability of fiscal adjustment** : Macroeconomic performance during the SAC was satisfactory: Real GDP growth was 1.9% in 2000 and 6.1% in 2001; consumer price inflation declined from 31.3% in 2000 to 9.8% in 2001 (EIU); and the consolidated government balance was -1.0% in 2000 and 0.0% in 2001 (EIU); the exchange rate was relatively stable: 12.43 Lei/US\$ in 2000; 12.87 in 2001; and 13.65 in 2002 (EIU data); **(2) Laying further foundation for land reform, agricultural growth, and rural development** : a law for expedited settlement of farm debt was adopted; satisfactory progress toward completion of NFRP was made, with over 95% of former state and collective farms having passed the "point of no return," land and property tenders held for 923 farms, liquidation completed for 804 farms, and title issued for over 75% of agricultural land; satisfactory progress was made in implementation of the ASF (including an audit of the ASF); **(3) Restoring financial viability of energy providers, improving energy efficiency, and ensuring reliable energy supply to all paying customers** : ANRE was established and funded and began operation; a new, market-oriented law was developed; significant progress was made in restructuring energy sector debt, including listing and documenting debts of privatized companies that were transferred to Moldtranselectro, and a GOM commitment to audit those debts (with the assistance of the Fund); significant progress was made in restructuring and privatization of sector units : three electricity distribution companies (comprising more than 2/3 of the market) were sold to a foreign firm, and a majority of Moldovagas was sold to Gazprom; energy "privileges" were virtually eliminated and a program of cash payments was established for the most vulnerable; satisfactory progress was made in improving payment by budgetary organizations for energy consumption; **(4) Supporting private sector development by facilitating investment and restructuring by strategic partners, and laying the foundation for growth of small and medium enterprises** : Significant progress was made in privatization: the 1999-2000 Privatization Plan was satisfactorily implemented--1,638 leased premises were sold; 1,364 plots of land under previously-privatized enterprises were sold; controlling interests in 30 medium-sized JSCs were sold; **(5) Mitigating financial cost to Government of November, 2000 ice storm** ; This objective as also accomplished.

### 4. Significant Outcomes/Impacts:

- Nearly all 1,100 state and collective farms were privatized
- Over 80% of agricultural land was owned by private individuals and corporations (start-2001)
- The reliability of electricity supply has improved substantially
- Efforts were successful to sell a substantial number of leased premises, land plots under private firms, and residual Government shares in companies
- Energy privileges were virtually eliminated and replaced with a program of cash payments to the poor

### 5. Significant Shortcomings (including non-compliance with safeguard policies):

- Less progress was made than envisioned in privatizing certain assets that would attract strategic investors, divesting key wineries, and progress toward privatization of Moldtelecom; a substantial portion of Moldova's productive capacity remains in state hands
- Little progress was made in implementing recommendations of (USAID-funded) study on legal and regulatory obstacles to private agriculture
- Government interventions in wheat and bread markets, as well as in markets for other agricultural products, delayed realization of project benefits
- The head of ANRE was arbitrarily removed, raising uncertainties about the agency 's independence
- Some deficiencies occurred in implementation of the ASF; some farmers who had not enrolled in NFRP received grants, as well as some others who were not eligible . The Chamber of Accounts issued a resolution stating that ASF administration had been poor, urging that those responsible for the breaches be brought to justice, and calling for a refund of illegally allocated funds
- In the area of land privatization, in some instances where municipalities owned land under newly -private enterprises, towns established terms that have made privatization extremely difficult

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Moderately Satisfactory	Although the project achieved most of its major relevant objectives, it had significant shortcomings, as detailed in section 5.
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability:</b>	Likely	Likely	

<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

NOTE: ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

- **Improved public expenditure management requires focused efforts at capacity building** --Efforts to rationalize and control budgetary spending using only administrative tools have limited impact .
- **Beyond land privatization and farm restructuring, post -privatization support is necessary to evoke a "supply response"**--Assistance with management, marketing, and finance are required in order to create a more efficient agricultural sector

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

The ICR is satisfactory, but only marginally so . The ICR does present a great deal of candid information on project achievements as well as shortcomings . However, its deficiencies include:

1. Lack of adequate macroeconomic data; compliance with the IMF program, *per se*, is not sufficient evidence that a satisfactory macroeconomic framework has been maintained . The ICR should have presented additional information on e.g., inflation, and the fiscal balance .
2. The ICR does not describe the progress made in payment of energy bills by budgetary organizations, even though this was the subject of project conditionality
3. The ICR does not discuss progress in implementing the ASF, even though this was the subject of project conditionality
4. In some instances, the ICR makes assertions that it does not support with evidence, e .g., improved performance of Moldovagas; "Actions taken under the SAC are largely irreversible;" "Budget subsidies for energy consumption have been brought in line with budget means and targeted to those in need ."