

IDA AT WORK

Moldova: Partnership for Change

Moldova's commitment to a shared vision for sustainable growth and poverty reduction has buoyed the country's economic recovery and spurred progress towards integration with the European Union (EU). Although it is still the poorest country in Europe, Moldova has greatly reduced its overall poverty rate from a high of 70 percent in 1999 to less than 30 percent today. Moldova's economy has expanded by more than 45 percent since 2000. Successfully managing debt and maintaining a prudent fiscal stance have allowed the country to improve its prospects for donor assistance, and the coordination of international aid has, in turn, played a critical role in helping the country achieve its development objectives.

Country Indicators	1995	2000	2008
GNI per capita (Atlas method, current US\$)	480	370	1470
GDP (current US\$ billions)	1.7	1.3	6.0
Inflation, GDP deflator (annual %)	39	27	7.3 *
External debt (DOD, current US\$ billions)	0.7	1.7	2.7
FDI net inflows (US\$ millions)	25.9	127.5	679.4
Poverty incidence (%)	—	68	25.8 (2007)
Primary school completion rate (% of relevant age group)	94	90	90 (2006)
Under-five child mortality (per 1,000)	30	24	20.7 (2006)
Maternal mortality (per 100,000 live births)	41	27	16 (2006)
Population (millions)	4.4	4.1	3.8

Source: World Development Indicators database, Household Budget Survey data (Ministry of Economy and Trade).

*(end of period)

Moldova joined the International Development Association (IDA), the World Bank's fund for the world's poorest countries, in 1994. IDA's contributions have included analytical and advisory services, financing for investment projects, and—starting in 2007—budget support via a Poverty Reduction Support Credit (PRSC) program. To date, IDA commitments for Moldova have totaled US\$441 million, with US\$317 million disbursed so far.



COUNTRY ACHIEVEMENTS

Moldova established a stable, growing economy by pursuing incremental reforms and strengthening partnerships.

Development efforts reversed a decade of economic decline and rising poverty that followed Moldova's independence in 1991.

As a small landlocked country, Moldova's economy was highly dependent on the rest of the former Soviet Union for energy and raw materials. The country suffered from the breakdown in trade that followed the dissolution of the Soviet Union, and these difficulties were exacerbated by drought and civil conflict. The Russian ruble devaluation of 1998 further buffeted Moldova's economy, and between independence and 1999, GDP plummeted more than 60 percent.

An additional complication in Moldova's transition is that limited economic opportunities and rising poverty have precipitated widespread emigration. Some 25 percent of Moldova's working population now lives abroad, and workers' remittances—payments sent back home—account for about one-third of GDP. These migrants are typically young, educated, and skilled.

Moldova continues to face the challenges of a young democracy.

After the country adopted a parliamentary system of government, the Party of Communists of the Republic of Moldova gained control of parliament and the presidency in 2001 in internationally sanctioned democratic elections. The intervening period through 2008 was marked by relative political stability, with steady improvement in economic performance, poverty reduction, and the management of public finances. However, in 2009, the newly elected parliament failed twice to elect a new president and was dissolved in accordance with Moldova's constitution. New elections were held in July 2009 but their outcome was indecisive.

Prudent fiscal policy and debt rescheduling have paid off.

Moldova was the last country among former Soviet republics to see a return to positive growth. Important structural reforms, rising demand from Moldova's trading partners, and a sizable inflow of workers' remittances have supported ongoing economic recovery. Authorities harnessed this momentum by limiting budget deficits and restructuring debt. Public debt was reduced from roughly 65

percent of GDP in 2001 to around 23 percent in 2007.

Improved debt sustainability was an important factor in establishing partnerships with international donors and collectively pursuing development objectives. In 2004, Moldova adopted its Economic Growth and Poverty Reduction Strategy Paper (EGPRSP), the first full poverty reduction strategy developed for the country in consultation with broad-based stakeholders and civil society. Moldova further strengthened its links with the EU through the EU-Moldova Action Plan (EMAP) signed in 2005. Together, the EGPRSP and EMAP provided a framework for increased donor harmonization. In early 2008, Moldova approved the National Development Strategy for 2008 to 2011 in close consultation with development partners.

Progress towards the Millennium Development Goals has been mixed.

The MDGs were adapted “to the Moldovan reality,” with target indicators established to define successful progress by 2006, 2010, and 2015. Moldova experienced strong economic growth and poverty reduction until 2006 when external shocks slowed the economy. Progress in the health sector has included decreases in the under-five child and maternal mortality rates which have exceeded the targets. Although the incidence of HIV/AIDS remains well above the target level for 2006, the increase in new cases diagnosed reflects improvements in detection, with increased testing identifying previously undiagnosed infections. Education reform has advanced more slowly than planned, and the quality of education in Moldova is a bigger problem than education coverage.

Moldova’s economy has proven resilient. However, the global economic crisis has significantly clouded the country’s immediate outlook.

Moldova has weathered a number of economic shocks over the last few years. Despite substantially higher energy prices, export bans on wine (the country’s main export), and a devastating drought that crippled the agricultural sector, economic growth continued to average more than 6 percent per year from 2000 to 2008.

In 2009, export and remittance flows have been severely affected by the regional recession, and the recent growth in investment has been derailed. These developments have a direct impact on the domestic economy, and poverty will likely rise as remittances fall and the economy contracts. This crisis also has important implications for fiscal policy: lower fiscal revenue collection and increasing demands on social safety net expenditures are contributing to a significant fiscal gap.

IDA CONTRIBUTIONS

Much of IDA’s assistance in Moldova has focused on the infrastructure and human development sectors. Given the country’s difficult transition and political instability in the 1990s, a community driven development approach was used to direct IDA support to mainly local interventions in areas with the highest concentration of poverty.

This approach has allowed IDA to help Moldova improve the quality of and access to social services and strengthen community infrastructure. IDA has also aided the gov-

ernment in efforts to improve public sector governance and to eliminate bottlenecks to growth, particularly through improvements to the business environment.

Through IDA involvement, Moldova has maintained an active dialogue with the World Bank and demonstrated its commitment to reform. This has resulted in not only increased IDA assistance but also greater support from and involvement by other donors.

Promoting a stable macroeconomic framework and a competitive market environment to fuel pro-poor growth have been key development priorities.

Guiding sustainable change through analysis and policy advice. IDA has strategically complemented financial assistance with analytical and advisory services. For example, the Bank's Country Economic Memorandum, poverty update, advisory work on agriculture, and business environment surveys informed the development of IDA's budget support program for Moldova. A trade diagnostic study highlighted how to mitigate inefficient and costly border procedures, and a dialogue around pension policy dialogue aided efforts to reform the pension system. The Public Expenditure Review in 2007 was closely linked to policy notes in health and education to ensure a comprehensive review and adequate sector input. This cross-sectoral approach continues to be critical for identifying constraints that impede competitiveness and refining public services and social assistance.

Facilitating trade and reducing the cost of doing business. IDA resources have been instrumental for improving the conditions needed to increase domestic and foreign investment. With the help of an IDA investment

Faster Trade

Major improvements in customs services occurred after the Automated System for Customs Data (ASYCUDA World) was put into operation at all 15 Moldovan customs offices with support from IDA.

Says Vasile Danu, the manager of a Moldovan export company, "I no longer have to wait for an interminable amount of time to register merchandise, as clearance procedures are now completed in less than two hours."

project, the Moldovan Customs Service has improved its performance and implemented an automated system for customs data to expedite processing. This enhanced capacity promotes export competitiveness and allows domestic firms to export directly and to act as suppliers to international firms.

Two notable ways that IDA has helped to strengthen the private sector include simplifying business registration and licensing procedures and creating a sound basis for financial reporting and auditing in the corporate sector. A 2006 law has mandated a review of all existing legislation and developed the capacity for applying regulatory impact assessment methodology to new legislation. After IDA supported various follow-up activities to the Report on the Observance of Standards and Codes for accounting and auditing in 2005, Moldova passed new accounting and auditing laws in 2007 that are aligned to EU law and international practices.

Together, IDA-supported efforts have bolstered the investment climate. Private investment rose from about 14 percent of GDP in 2003 to over 22 percent of GDP in 2007. Foreign direct investment increased sharply during the same period, up to 7 percent of GDP in 2006 and 10 percent of GDP in 2007.

Strengthening property rights and increasing access to finance, knowledge, and technology. The security of tenure and ownership rights has increased with the establishment of a unified national real estate cadastre system for urban and rural land. To date, 75 percent of rural property in private hands has been fully registered. Investment projects focused on providing credit and technical assistance in rural areas have promoted a surge in new businesses and boosted the income of existing ones.

A focus on public administration reform has increased the capacity of the public sector.

Public financial management. IDA has been helping Moldova allocate strategic public resources efficiently through the development of a Medium-Term Expenditure Framework (MTEF) budgeting process. The MTEF now covers all the national public budget resources, including state and local budgets, the state social insurance budget, national health insurance budget, and donor-funded investment projects. Analytical work, investment lending, and budget support from IDA have guided and enabled Moldova to increase transparency and accountability in managing public finances.

A government internal financial control and audit system based on EU standards has been developed and is being implemented. Other important developments include the establishment of a single treasury account system, an integrated financial management system, and a strategic plan for the institutional development of the Court of Accounts.

Civil service reform. IDA has facilitated ongoing improvements to Moldova's public

administration by supporting important analytic work—such as a public expenditure review—and administering a multi-donor Public Administration Reform Trust Fund. With the support of IDA's policy-based lending, Moldova has recently adopted a Civil Service law to classify and grade positions and link pay with professional development and performance.

IDA's targeted approach has reaped benefits in various sectors.

Energy. Sharp increases in the prices of oil and natural gas have heightened Moldova's energy vulnerability. An IDA energy project has yielded important benefits in this context: upgraded metering and transmission of electricity to reduce outages by 35 percent; more energy efficient heating to achieve significant savings; and increased access to heating and hot water. Meanwhile, policy lending supported Moldova in developing and adopting a new Energy Strategy in 2007 to establish a reform path for legal, regulatory, and technical harmonization of the Moldova energy sector with the EU internal energy market and the Energy Community Treaty.

Health. With IDA's support, Moldova's projects are building on the experience of health sector reforms and successful HIV prevention strategies throughout the World Bank's Europe and Central Asia (ECA) region. Health investment projects have defined a minimum package of health services offered by the government at no charge, provided basic medical equipment to 84 percent of rural health centers, provided portable medical kits to all general practitioners, and renovated 22 percent of all health centers. Training has been provided for 750 doctors, 1,500 nurses, and 300 health care managers to date.

Heat for Health

As many as 170 public buildings—with over 1.2 million visits per year—are benefiting from the heating component of the Energy II project. Most of the sites (schools, kindergartens, district hospitals) are in small towns.

Ms. Lydia Hangan, Head Physician of the District Hospital in Ialoveni, reported, “We have been operating in comfortable conditions for two years now, which has resulted in a two-fold drop in the rate of morbidity owing to respiratory conditions among health workers.”

An AIDS Control project has supported Moldova’s implementation of the National Program for Prevention and Control of HIV/AIDS and Sexually Transmitted Infections. Among other benefits, full coverage has been established for screening pregnant women for HIV and providing prophylactic treatment and free milk formula for those who are infected. Transmission of HIV from mother to child has fallen from 13.3 percent in 2002 to 0 percent in 2006.

In combination, IDA-supported initiatives have helped Moldova improve rural access to health care and slow the spread of AIDS. Between 2000 and 2006, maternal mortality decreased more than 40 percent and under-five child mortality decreased more than 20 percent. In collaboration with IDA and other international donors, Moldova has developed a new Health Sector Development Strategy 2007-2017 to continue the health reform process.

Education. IDA has focused steadily on improvements to Moldova’s education system.

Social Investment Fund resources have supported the construction and rehabilitation

of schools. A completed investment project provided 186 new curricula and more than 100 different textbooks. More than 3,500 training courses were held for teachers to improve the quality of education services. A current project aims to increase access to quality education for children in poor families, particularly in rural areas. These efforts have included components to strengthen the government’s capacity for education planning and monitoring, and they are coupled with a broader program for education reform supported through policy-based lending. This reform will promote a more efficient use of public resources—decreasing the share of non-teaching staff, lowering overhead costs, and bring pupil-teacher ratios closer to international norms.

Water and sanitation. IDA is helping Moldova improve water supply and wastewater treatment systems, which have seriously deteriorated after almost two decades of deferred maintenance. A pilot project has benefited five Moldovan towns with a total population of about 250,000—providing a steady supply of water free of pathogens, improving energy efficiency, and increasing the financial viability of utilities. A new national water supply and sanitation project is expected to increase the coverage, quality, efficiency, and sustainability of these services more broadly.

Innovative approaches have focused on improving and measuring results.

Strengthening government ownership.

IDA has fostered a dialogue around results measurement, strengthening the capacity of the government to manage programs for results going forward. One initiative that aimed to promote and improve results-based management was a three-part learning series

in monitoring and evaluation conducted jointly for Bank staff, government personnel, and members of project implementation units in 2007 and 2008. In addition, the Bank's regional results team has developed tools to support managing for results; for example, IDA's portfolio in Moldova is monitored and evaluated using an innovative scorecard that combines program and portfolio self-assessments, an examination of the deliveries and budgets of lending and analytical work, and quality assessments from the Bank's Quality Assurance Group and Independent Evaluation Group.

PARTNERSHIPS

IDA has played a pivotal role in catalyzing and coordinating donor support.

Combining resources for sustainable solutions.

Nearly all of IDA's lending operations and analytical work in Moldova involve partnerships with other donors. In 2006, a Development Partnership Framework was agreed upon by Moldova, IDA, the Netherlands, the United Kingdom, Sweden, the UN, the IMF and the EU to harmonize development efforts. As resources for Moldova from other donors and agencies have increased, IDA is no longer the largest provider of external financial support. But the World Bank's country team in Chisinau continues to serve an important function in convening donors, facilitating the development dialogue with the government, and lending its expertise and systems for the efficient and transparent administration of development aid.

Excerpt from Results Scorecard: Summary Assessment of Outcomes			
MOLDOVA CAS RESULTS SCORECARD			
FY2008			
(1 = deterioration) (2 = steady state) (3 = some improvement) (4 = significant improvement)			
Country Outcomes	Outcomes Bank expects to influence—CAS FY 05–08	Progress	Score
Pillar II. Minimize Social and Environmental Risks, Build Human Capital, and Promote Social Inclusion			
Better targeting of social assistance	Percentage of social assistance targeted to the poor increased	In progress	2
Higher quality education and improved access	NER in rural areas increased/Gap in performance between rural and urban reduced	In progress	2
Better allocation of efficiency in health and improved indicators	Reduction in IMR & CMR, TB/HIV incidence and mortality/ Increased % of population covered by essential health interventions	On track	4
Improved access to and quality of WSS and Reduce environmental degradation and hazards	16 hours water supply in pilot areas/Improved collection rates/O&M costs covered/Water quality improved/Obsolete POPs reduced/Afforestation increased	On track	4

In promoting sustainable outcomes, IDA leveraged support from other donors and streamlined the implementation of multi-donor initiatives to minimize the administrative burden for the government. One example is in the transport sector, where IDA has been engaged with government counterparts and other development partners in designing a Land Transport Infrastructure Strategy.

Responding to immediate development needs.

IDA's collaborative relationship with Moldovan authorities and with other donors allows for a flexible and informed approach to addressing urgent needs as they arise. To minimize the threat of the avian flu, IDA combined resources with Moldova, Japan, the European Commission (EC), and the United States Agency for International Development (USAID) to boost the country's preparedness and capacity to respond. In 2006, IDA's leadership in convening donors was exemplified by the Consultative Group meeting in Brussels. This meeting, hosted jointly by IDA and the EC, brought together the government of Moldova and international partners to confirm commitment to the country's reform program and to identify more than US\$1.2 billion additional external financing in response to recent external shocks. Similarly, in 2009, IDA is actively working in collaboration with the donor community to identify urgent short-term policy actions needed to counter recent economic developments associated with the regional recession.

CHALLENGES AHEAD

With IDA assistance, Moldova has been successfully implementing an ambitious set of reforms and experiencing increased economic

stability and steady growth. But there remains much to be done to build on this substantial progress.

The economy is still vulnerable, as demonstrated by responses to rising energy prices, the wine embargo, the devastating drought, and the regional recession. Remittances from Moldovans working abroad still account for too large a share of the GDP and relying on such inflows will not be sustainable in the long run. Too many Moldovans, especially the rural poor, still struggle for access to food, clean water, basic health care, heat, and education. Furthermore, the country faces a time of political uncertainty, with the outcome of recent parliamentary elections undecided.

Moldova's successful transition to a competitive market economy will require continued support with a comprehensive strategy that includes and helps the rural poor.

Enhancing competitiveness is necessary to achieve sustainable growth.

Moldova has not yet achieved its vision of private sector-led growth, and the country's standing in the global *Doing Business* rankings remains low relative to its neighbors. Further attention is needed to address remaining barriers related to trade across borders, licensing, access to credit, and tax payments. Enhancing the economy's global competitiveness is essential for achieving long-term growth in a small, open economy like Moldova.

This will require the continuation of structural reforms, improvement of public institutions, promotion of a market-friendly business environment, a more sophisticated financial system, and better infrastructure.

Persistent rural poverty signals a need for further reforms in the agricultural sector.

Agriculture continues to be one of the largest real sectors of the economy, but the sector has underperformed overall economic growth. Moldovan farmers are generally receiving less for their harvests and paying more for their inputs than they should, and this trend appears to explain in part why poverty reduction has stalled in rural areas.

Public spending and agricultural policy still disproportionately support large corporate farms even though 40 percent of Moldovan land is cultivated by individual farmers. Developing the agricultural sector will require further deregulation of input and output markets, improved access to finance, implementation of standards and food safety regulations aligned to international practice, and better access to new technologies. In addition, as demonstrated by the severe drought in 2007, Moldova needs better measures for reducing farmers' vulnerability to natural hazards.

Achieving development outcomes is contingent on providing the right level of support to build capacity and complete reforms.

With more than a decade of experience in Moldova, IDA has established an effective, collaborative relationship with government authorities. In the end, all attempts to improve the business environment, spur domestic productivity, and reduce poverty will count on the presence of an effective, efficient, and transparent public sector. Strong national agencies are needed to sustain desirable development outcomes over the longer term. Moldova has made great strides in pursuing a reform agenda, engaging the donor community in an ongoing development dialogue, and launching its new National Development Strategy (2008-2011).

August 2009.

<http://www.worldbank.org/ida>