Report Number: ICRR0022285

1. Operation Information

Operation ID	Operation Name
P156963	Moldova Economic Governance DPO1
Country	**Practice Area (Lead)**
Moldova	Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-62740	31-Jul-2019	29,160,390.00
Bank Approval Date	**Closing Date (Actual)**	
05-Jul-2018	31-Jul-2019	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	30,000,000.00	0.00
Revised Commitment	30,000,000.00	0.00
Actual	29,160,390.00	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The stand-alone Economic Governance Development Policy Operation (EGDPO) aimed to support the Government of Moldova in reducing fiscal risks and leveling the playing field for private sector development (program document (PD), p. i).For the purposes of this ICRR, we unpack the project development objective (PDO) into two separate objectives as follows:

Objective One: Reducing fiscal risks.

Objective Two: Leveling the playing field for private sector development.

b. Pillars/Policy Areas

The operation was structured around two pillars: (I) strengthening economic governance in Moldova linked to the management of public resources to reduce fiscal risks; and (II) leveling the playing field for private sector development, including in the core economic sectors of agriculture and energy. Aspects of two PAs contributed to more than one objective and were relevant to more than one pillar.

Pillar I had 4 Prior Actions (PAs) [PD, p.21]:

- PA1: Enacted amendments to its public pension legislation by introducing a new benefit formula and indexation, increasing the retirement age, and streamlining the special pension regimes.
- PA2: Enacted legislation to increase specific excise taxes on cigarettes.
- PA3: Enhanced transparency and oversight of State-owned enterprises (SOEs) by enacting legislation that: (a) mandates the auditing of the annual financial statements of state/municipal enterprises which are part of the medium, large, or public interest category; (b) classifies large SOEs as public interest entities and obligates them to prepare financial statements under International Financial Reporting Standards (IFRS); and (c) establishes improved institutional and funding arrangements for an audit oversight system. Elements of this PA also contributed to the second objective and pillar.
- PA4: Strengthened its asset declaration regime by (a) enacting amendments to the National Integrity Authority (NIA) Law, the Law on Declaration of Assets and Interests, the Criminal Code, and the Contravention Code; (b) adopting a regulation on the methodology for verification of asset declarations and conflicts of interests; and (c) launching the NIA's electronic asset declaration and verification system online.

Pillar B had 4 Policy Actions (PAs))[PD, pp.21-23]

- PA5: Enacted amendments to its legislation on the regulation of entrepreneurial activity to streamline requirements for application and the procedure for receiving authorizations, including mandating the use of a one-stop-shop, and to reduce the list of required licenses, authorizations, and certificates.
- PA6: Enacted amendments to its legislation to improve farmers' access to agricultural inputs (seeds, seedlings, fertilizers, and pesticides) by simplifying the domestic mandatory requirements or testing and registration for European Union-registered inputs.
- PA7: The National Bank of Moldova initiated evaluation of compliance by three banks in New Regulation on Internal Governance and Risk Management in Banks through its on-site and off-site monitoring systems. This PA contributed majorly to the first objective and pillar.
- PA8: Taken steps to improve transparency and competition in the wholesale electricity market by i) the approval of the Guidelines for the Annual Procurement of Electricity for the purchase of electricity on the wholesale market (excluding regulated purchase of domestic power generation, power reserves,

and emergency supply); and by ii) the involvement of the Group of Observers in the monitoring of the tender-related process.

c. Comments on Program Cost, Financing and Dates

The USD 30 million Moldova Economic Governance Development Policy Operation (EGDPO) consisted of a credit of EURO 24.9 million (USD 30 million) from IDA. There was no recipient contribution planned or made.

The project was approved on July 5, 2018 and became effective July 20, 2018. The financing was allocated in a single withdrawal tranche, which was disbursed on July 26, 2018. The project closed on schedule on July 31, 2019. The actual amount disbursed was USD 29.2 million; The ICR does not state whether the difference was due to exchange rate fluctuations or other factors.

3. Relevance of Design

a. Relevance of Objectives

At the time of approval, Moldova was emerging from a 2014 banking fraud, which had triggered a loss of confidence in the financial sector and came with a large fiscal cost. Interest rates peaked at 20 percent, four times what they had been before the crisis. The ratio of credit to the private sector to GDP fell by 13 percentage points to 23 percent. The bailout led to a direct loss of public resources equivalent to 12 percent of GDP in 2016 (SCD, p. 49).

Following the banking fraud, Moldova embarked on a reform program to rebuild credibility of its economic governance and address the fiscal challenges of the banking bailout, the 2015 recession, and a shortfall in external financing. Over 2015-2016, the Government cut public expenditures (particularly capital outlays) and embarked on a series of reforms to reduce the macro-fiscal risks stemming from the financial sector, including by undertaking bank-level diagnostics and by strengthening the supervisory and regulatory frameworks.

However, fiscal risks stemming from current spending pressures and contingent public liabilities remained substantial. Due to mandated indexation and valorization of pensions, wage increases, and additional public capital investments, the fiscal deficit equivalent was expected to widen to three percent of GDP in the electoral year 2018. The project objective of reducing fiscal risks was therefore highly relevant to country conditions.

The objective of leveling the playing field for private sector development, including in core economic sectors of agriculture, banking and energy, built upon priorities outlined in Moldova's Systematic Country Diagnostic (August, 2016), which identified unfair practices benefiting dominant firms and preferential treatment toward SOEs as a key constraint to private sector development (particularly in the transport, energy and retail distribution sectors). With proceeds from remittances and pensions, the main sources of growth and poverty reduction slowing, creating private sector jobs in Moldova was central to ensuring continued advances in reducing poverty and promoting shared prosperity.

Both objectives aligned with the Government's priorities as articulated in the National Development Strategy – Moldova 2020 (World Bank; Fall 2019 MEU Special Focus Note: "Unfinished Pension Reform."), with pillar A (focusing on reducing fiscal risks) linking directly to National Strategy priority #6 (ensuring financial sustainability of the pension system to secure an appropriate rate of wage replacement), and pillar B (focusing on leveling the playing field for private investment) linking to priority #4 (improving the business climate, promoting competition policies, streamlining the regulatory framework, and applying information technologies in public service for businesses and citizens).

Thus, the strategic purpose of EGDPO was clearly relevant to the country's development priorities.

b. Relevance of Prior Actions

Rationale

There were eight PAs, with PAs 1-4 supporting Pillar A (strengthening economic governance to reduce fiscal risks), and PAs 5-8 supporting Pillar B (leveling the playing field for private sector development, including in core economic sectors of agriculture and energy).

PA1's reforms to the pension system was a critical step to significantly reducing Moldova's fiscal risk arising from a failing pension system. At the time of approval, Moldova's pension system suffered from declining actuarial solvency. It is only 27 percent funded, one of the lowest in the region (PD, pg. 15). However, the system also imposed one of the highest contribution rates (with a labor tax of 23 percent, and an additional 6 percent contribution from employees, making the total tax of 29 percent 50% higher than the average of other countries in the region). This has led to widespread avoidance and informality. The reform aimed at promoting also a more equal pension system, by strengthening the link between contributions and pensions, helping to improve compliance, hence increasing the number of contributors and contributions, eventually contributing to its fiscal health. .

The system's financial health was severely strained by the shrinking number of pension contributors. while special and privileged pensions (particularly for civil servants) imposed an additional burden. To deal with the growing fiscal challenge, Moldova faced the choice of either reducing benefits further, raising the contribution rate, or increasing the retirement age. Both reducing benefits or raising the contribution rates could have jeopardized social acceptance of the pension system (and raising labor taxes would further reduce competitiveness). Gradually raising Moldova's retirement age (from 57 for women and 62 for men to a uniform age of 63) was thus a vital component for ensuring the financial sustainability of the system, as was reducing the provision of special benefits for civil servants (Relevance of PA1=HS).

There was a clear and credible results chain linking **PA2** to the overarching objective of reducing fiscal risks, both by raising government revenues through tobacco excise taxes while reducing the long-term health costs associated with tobacco use. Further, the design of the PA was supported by analytical work estimating the tobacco price elasticity of demand in Moldova to determine the progressivity of the tax (Fuchs, Alan and Francisco Meneses. 2018. "Tobacco Price Elasticity and Tax Progressivity in Moldova." World Bank. Washington, DC.). However, the ultimate impact of the reform on fiscal balances depended upon accompanying measures to limit the ability to divert tobacco sales into unregistered markets. Constraining duty-free sales was also needed for the long-term goal of reducing cigarette demand to improve health outcomes over the longer term. (Relevance of PA2=S).

With regard to **PA3**, State-Owned Enterprises (SOEs) and Municipal Enterprises (MEs) receive significant direct state aid (for SOEs, four percent of GDP per year) as well as significant indirect state aid through tax exemptions, deferrals and the like. Despite this, the financial reporting of SOEs and MEs was uneven and weak, reducing accountability in the use of public resources and creating significant fiscal risk. The prior action aimed to enhance transparency and oversight of SOEs and MEs through legislation requiring yearly auditing of financial statements. The PA would thereby contribute to reducing fiscal risks associated with SOE/ME liabilities (in 2015, overall losses of SOEs were estimated at one percent of GDP) and bolsters confidence in public institutions. Given the significant role SOEs play in the Moldovan economy across a range of services and industries, this PA could also be expected to have an impact on competition and is therefore of relevance to the second objective/pillar. The design of PA3 drew upon recommendations from the CPF, which highlighted the need for confirmed funding for the audit oversight system (Relevance of PA3=S).

Finally, along with PA3, **PA4** aimed at increasing transparency in the use of public resources, through a new and verifiable institutional model for asset declaration by public officials. The lack of an effective system for declaring and verifying assets and financial interests of public officials created large windows for corruption in a country emerging from a banking scandal that significantly diminished credibility in economic governance. Greater transparency and accountability of public officials would reduce such corruption and strengthen governance. The reform also supported additional sanctions for both taking a decision with the purpose of obtaining patronage, as well as for failing to disclose such While the legislative amendments supported by PA4 were an important step for preempting conflict of interests in public decisions, sections of the asset declaration form needed to be strengthened (PD, page 15). (Relevance of PA4=S)

The relevance of PAs in Pillar A to the objective's achievement is judged to be Satisfactory.

PA5 aimed at streamlining the issuance procedures of the authorizations and reducing the number of permits required for businesses to operate. A credible results chain linked **PA5** to the goal of leveling the playing field for private investment, by reducing the unjustifiable regulatory compliance costs borne by businesses. The prior action was consistent with the SCD's recommendations for reducing these costs and built upon the previous engagements in DPO2 (2016) to reduce regulatory compliance costs. Through a reduction in the number of authorization documents required and the introduction of a transparent and simplified permit approval mechanism (through a one-stop-shop information system), the reform aimed at reducing the bureaucratic burden for firms, hence facilitating firm creation, and reducing costs for business opening. (Relevance of PA5=S).

PA6 aimed to address a constraint to accessing plant varieties and types of fertilizers and pesticides compared with EU farmers. New inputs required lengthy and costly domestic testing procedures, and these procedures were costly, nontransparent and unreliable. PA6 provided for the free introduction and circulation in the market of the fertilizer marked EC fertilizer without state testing and without registration in the State Register of Phytosanitary Products and Fertilizers. It also supported legislative amendments for unconditional recognition of the list of active substances approved by the EU, a shorter time frame (40 working days rather than one year), and a simplified procedure for the approval of plant protection products authorized in one of the member states of the EU. While **PA6** was persuasively linked to the specific objective of leveling the playing field for private investment (designed to promote easier access by farmers to plant varieties, fertilizers and pesticides by reducing the monopoly power of seed importers and reducing costs of complying with agricultural regulations), a lack of alignment of secondary legislation (covering fertilizers, pesticides, seeds and seedlings prevents) hinders the full realization of PA6's intended impact on the objective (Relevance of PA6=MS).

PA7 followed up on the regulatory reform enacted in DPO2 to address issues that led to the 2014 banking fraud and prevent its recurrence. Poor corporate governance in the Banking system as well as weak supervisory response by the National Bank of Moldova (NBM) made it difficult to identify banks' ultimate beneficial owners (UBOs) and their direct interests. As a result, changes in the control of banks escaped the vetting and supervisory response by the NBM, allowing undisclosed parties to operate the country's financial sector with unclear objectives. The prior action included evaluation of compliance by three banks at the center of the scandal (in accordance with the bank governance provisions of the new Laws on Banks' Activity), the new regulation of internal governance and risk management in banks is significantly important for advancing the governance of banks and strengthening internal bank oversight and control management practices The fiscal consequences of bank failure have been significant in Moldova, making this prior action of major, and likely greater, relevance to the first objective/pillar. Indeed, it is not clear that regulatory shortcomings were the main factor undermining competition in the financial sector. (Relevance of PA7=HS).

PA8's contribution to leveling the playing field for investment was based on the assumed improvement in the transparency and competition for electricity procurement through the requirement of compliance with new guidelines and the monitoring of the tender process. However, there are inadequacies with the design affecting the de facto competition and transparency (which prevent the policy from achieving its intended objectives). The monitoring of the tender process by the Group of Observers has an important role in ensuring these inadequacies are identified so that the guidelines can be revised (PA8=S).

The relevance of PAs under Pillar B are judged to be Satisfactory. This rating (and the Pillar A rating) would be unaffected were PA7 to have been placed in Pillar A.

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

Pillar 1 (Strengthening economic governance in Moldova linked to the management of public resources to reduce fiscal risks) had four results indicators (RIs), each linked to a separate PA in the pillar. Pillar 2 (leveling the playing field for private sector development, including in core economic sectors of agriculture and energy) also had four RIs, each associated with a separate PA.

RI1 represented only a partial indicator of the envisioned outcomes of the amendments to public pension legislation supported by PA1. PA1 foresaw two main outcomes: (1) the elimination of the deficit of the pension system and (2) the maintenance of the replacement rate. RI1, targeting an increase in the average old-age replacement rate from 24% (baseline) to 26% post reform (2018), only covered the social sustainability of the reform but did not address the financial sustainability aspect at all. The results chain would have been strengthened by having an indicator specifying a goal for the pension deficit. The results indicator was thus not adequate for measuring progress toward the achievement of the objective of reducing fiscal risks (Relevance of RI1=MU).

RI2, measuring the increase in tobacco excise taxes, was meant to capture the impact of an increase in the tobacco excise tax rate on the pillar objective of improved fiscal sustainability, both in the short term (through an increase in real tobacco tax revenues) and in the long term (through reduced health spending on smoking related disease). The indicator was clearly articulated (an increase in excise tax collections from tobacco by 12 percent in real terms in 2018), and adequate data was available to monitor progress in a timely manner. However, many factors influence revenue collection besides the excise rate (including demand, as well as the possibility of smuggling), and the indicator could not disentangle the impacts of higher tax rates and changes in demand (either through a decline in tobacco demand or through a diversion of cigarette purchases to duty-free markets). The goal of reduced smoking (which would impact longer run fiscal risks) could not feasibly be measured over the time horizon of the operation(Relevance of RI2=S).

RI3, measuring the increase in audit reports to the competent national authority among SOEs and MEs, was clearly defined, with credible baseline data and a clear target, and captured an important expected intermediate outcome from the mandatory auditing changes under PA3. However, with no reference to the quality of audits, it did not fully capture the intended impact of greater transparency and oversight of SOEs (Relevance of RI3=MS).

RI4 consisted of two distinct indicators: the number of assets and interest declarations filed electronically, and the number of asset declarations undergoing automatic cross-checks with public registries. Both sub-indicators were well defined, with clear baselines and targets, and data was available to measure the achievement of both targets. Had the PA4's amendments to laws and verification methodology for assets and interests declarations been the only changes to asset declaration, RI4 would have been an adequate indicator for capturing an important impact on overall transparency in the use of public resources (growth in verifiable assets and interests declarations). However, because of the capital amnesty passed as part of the Fiscal Package, the ability for RI4 to capture the objective of strengthening economic governance linked to the management of public resources to reduce fiscal risks was impaired. Indeed, the growth in assets declarations (particularly over the short window provided for capital amnesty) could be taken as evidence of a rush to legalize illegally obtained and owned assets – undermining the credibility of the commitment to better governance. For these reasons, RI4 was not an effective indicator for measuring PA4's impact on the relevant objective (Relevance of RI4=MS).

The relevance of results indicators associated with prior actions under Pillar A are judged to be Moderately Satisfactory.

RI5, measuring the total number of authorizations (the number of distinct permits and licenses issued by government agencies), meant to capture the impact of PA5's reforms to streamline the requirements for investor applications and procedures for receiving authorizations. The results indicator captures one intended impact of the prior action, but it does not capture the additional action to mandate the use of the one stop shop (OSS) platform for application and issuance, which was important for simplifying the process for applying for licenses. As the ICR notes, several issuing authorities refused to integrate their systems with OSS. The RI was not able to adequately measure the full impact of the prior action without the inclusion of this information on migration to OSS. (Relevance of RI5=MS).

RI6, measuring the increase in the imported plant varieties and types of fertilizers and pesticides, meant to capture PA6's impact on improving competition in the agricultural sector through a reduction in mandatory requirements for testing and registration for EU-registered inputs (seeds, seedlings, fertilizers and pesticides). The indicator was in spirit an adequate indicator for measuring the intermediate outcome of the legislation on the pillar objective, but data was not available for measuring the increase in pesticides. (Relevance of RI6=MS).

RI7, measuring the number of banks materially complying with the governance provisions in the Law on Banks' Activity and the Regulation on Internal Governance and Risk Management, meant to capture PA7's impact on improving Bank governance, ultimately improving the ability for the banking system to provide loans to productive investments for the private sector. The definition and calculation of the indicator was clearly explained, and the indicator was generally adequate for measuring the intermediate outcome of the compliance oversight (Relevance of RI7=S).

Finally, RI8, measuring the share of electricity purchased under published guidelines, meant to capture PA8's impact on transparency and competition in the wholesale electricity market through new guidelines for the procurement of electricity on the wholesale market, as well as the involvement of the Group of Observers in the monitoring of the tender-related process. The indicator, focusing only on the change in electricity purchased under the new guidelines, failed to capture the impact of the PA on the oversight of the tender process and thus the true objective of greater transparency and competition in the market. (Relevance of RI8=S).

The relevance of results indicators associated with prior actions under Pillar B are judged to be Satisfactory. Had RI7 been placed in pillar A, where it more likely belongs, the relevance or RIs rating for Pillar A would remain MS, but the relevance rating for Pillar B would only be MS (rather than S). The overall rating of MS would remain.

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Strengthening economic governance in Moldova linked to the management of public resources to reduce fiscal risks
Supported by PAs 1- 4
Progress measured by RIs 1- 4

Rationale

Prior Action 1 supported the pension reform introduced in December 2016 by Law No. 290 to preserve Moldova's pension system's financial sustainability while ensuring its social sustainability. Before the reform, the replacement rate (at 24 percent) was expected to decline over time. The RI target for the replacement rate (26 percent) was met and is expected to stay in the range of 25-30 percent.

However, immediately following the disbursement of the credit (on the precise day of disbursement: July 26, 2018), the government passed a Fiscal Package with specific measures that negated the achievement of objectives sought through PA1. Among other measures included, the government instituted a reduction in the contribution rate for real sector employees and ad-hoc interventions (including top-ups, twice-a-year double indexation), which resulted in a permanent pension deficit widening by a full 1.4 percent of GDP [1], weakening the pension system financial stability as well as the link between paid contributions and pension amounts. The reduction in the contribution rate alone resulted in a permanent loss of contribution revenue of 0.7 percent of GDP (ICR, p. 16). Since the release of the 2018 Fiscal Package, the World Bank team, in coordination with the IMF, have sought to find ways to reverse and mitigate the impact of these policy initiatives, and changes supported by the 2019 IMF program will partially offset the revenue loss. However, further action will be needed to mitigate the fiscal impact of the partial reversal of the reform and subsequent interventions by authorities.

Prior Action #2 sought to raise fiscal revenues by increasing excise taxes on tobacco, and to reduce fiscal risks in the long term by disincentivizing tobacco use, reducing health care spending. The RI associated with PA2 adequately captured the increase in excise tax collections from tobacco, but the target (an increase of excise tax collections from tobacco in real terms by 12 percent) was not achieved (in fact, there was a decline in tax revenues). Following the tax increase, about 10 percent of smokers switched to electronic cigarettes (which were excluded from excise coverage until Summer 2019), while there was an increase in tobacco sales diverted to non-registered (duty free) markets, ultimately resulting in a net decline in government tax receipts from tobacco, significantly diminishing the intended short-term fiscal goal. It was not possible to verify whether tobacco consumption was altered (though the ICR argued that the reduced real govt. tax revenue from tobacco might point to a decline in tobacco demand).

Prior Action #3 sought to enhance transparency and oversight of SOEs and MEs by mandating auditing of financial statements and obligating large SOEs to prepare financial statements under IFRS. The associated results indicator adequately captured the growth in the share of SOEs and MEs submitting audit reports, but the quality of the reports needs to be improved. The target increase in audit reports was met, and currently 19 of the 38 state and municipal entities are submitting audits, and reports are available on the Public Property Agency website.

Prior Action #4 sought to strengthen the asset declaration regime by broadening its coverage (to include critical high-level public servants at higher risk of corruption) and facilitating its processing and verification (through electronic filing). The associated results indicator, RI4, captured growth in asset declarations following the amendments to the laws on asset declaration supported by EGDPO, and the target was partially met (the target growth in declarations was met, but there were no cross-checked declarations, thus the other target was not met). However, immediately following disbursement of EGDPO (July 26), the authorities passed a Fiscal Package that included a capital amnesty allowing previously undeclared income and assets to be legalized after paying a 3 percent tax (ICR, p. 13), in direct contravention of the agreement with the Bank. As noted in the ICR, the subsequent legislation was at odds with the objective of fighting corruption and reducing fiscal risks. Since July 2018, the World Bank, IMF and other development partners worked to push for a reversal of the new measures. Ultimately, amendments adopted in November 2018 (at the request of the IMF and World Bank) mitigated some of the impact of the Fiscal Package amnesty program, excluding from voluntary declaration officials and family members who were required by Law 133 of June 17, 2016 to file declaration of assets and interests. This diminished some of the larger risks for widespread corruption by public officials, although the law may still undermine tax compliance and goes contrary to broader efforts to reduce opportunities for corruption and money laundering (even if penalties under other legislation remain). The previous DPO series ICR (DPO2) articulated the high risks of reversals of reforms, noting that oligarchs retained significant influence over the political process and corruption was a serious concern for implementation of EGDPO. On the whole, the positive steps taken toward broadening the coverage of the asset declaration regime were undermined by the subsequent passage of measures under the Fiscal Package.

Pillar A's objective is judged to be MODERATELY SATISFACTORY

Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

Leveling the playing field for private sector development, including in core economic sectors of agriculture, banking and energy
Supported by PAs 5, 6, 7 and-8 a
Progress measured by RIs 5, 6, 7 and 8

Rationale

PA5 focused on streamlining business operations through a reduction in required authorization requirements and a simplified permit approval mechanism. The associated results indicator RI5 captured the reduction in the number of distinct permits and licenses issued by government agencies (from 300 to 153), and the results target was met. However, one element of the reform was not met. The prior action had mandated the use of OSS for filing applications, to reduce the administrative burden on firms. While the number of distinct licenses declined to 152, only 69 are fully operational in OSS. Several issuing authorities (including the Central Bank of Moldova) have requested exemption from the OSS system (the Central Bank due to its independence, and others claiming technical difficulties) For those permits accessible in the system, the time needed to apply for a permit was reduced from 20 to 6 days.

PA6 meant to facilitate farmer access to agricultural inputs by simplifying domestic mandatory requirements for testing and registration of EU registered inputs. The results indicator RI6 captured the increase in imported varieties of seeds, seedlings, fertilizers and pesticides following the amendments to legislation. While the targets were met for seeds and fertilizers, data was not available to measure the increase in pesticides, and the target for seedlings was not met. Thus, the results expected from PA6 were only partially achieved. A review of secondary legislation found that modifications were needed to remove contradictions with the new primary law and clarify implementation details, which was foreseen to take place within six months of the amendments to the primary law (May 2018) but those regulations have not yet been amended.

PA7 aimed to support bank governance by enforcing material compliance with the Law on Bank Activity No. 202/2017. The results indicator associated with the prior action, RI7, captured the number of banks materially complying with the governance provisions in 202/2017, as well as the Regulation on Internal Governance and Risk Management. The target increase (from 0 to 5) was exceeded, with 11 out of 11 banks in compliance with the new law and regulation.

Finally, PA8 aimed to improve the transparency and competition in the wholesale electricity market by drafting guidelines for annual electricity procurement by suppliers and network operators, and by establishing a Group of Observers to monitor the procurement process and identify ways to strengthen if needed. Under the Guidelines, which were prepared with the support and approval of the Energy Community Secretariat, the transparency and disclosure obligations applied only to regulated Moldovan energy companies (suppliers for which the retail prices are regulated by ANRE, Transmission and Distribution companies) which are purchasers of electricity. Energocom and its electricity acquisition and contracts were not subject to the Group of Observers monitoring. The guidelines did not foresee the publication of information related to the electricity acquisition and contracts for intermediaries such as Energocom. As a result, the company Energocom, acting as an intermediary/wholesale trader, was able to participate to the auction process without the obligation to publish information related to the power purchase agreements it entered into with generators (DTEK and MGRES). The documents published by the Group of Observers highlights this issue and made recommendations on the issue to improve the Guidelines. In 2016, in its review of the National Energy Regulation in Moldova, the Energy Community Secretariat (ECS) noted that the annual power purchase contracts were concluded "following a rather opaque bidding process," and that "the National Agency for the Regulation of Energy (ANRE) so far failed to remedy that situation or to add transparency and fairness by acting as an independent authority."

Having said that, the 2017 Group of Observer report noted the improvement in the procurement process (compared to a lack of process). Offshore companies that previously acted as intermediaries no longer participated. The Group also stressed that in the second round of negotiations there was real competition between two tender finalists. Following this diagnosis, the ECS, ANRE, and the Deputy Prime Minister signed an action plan to provide all necessary mechanisms and ensure full transparency for imported electricity purchases by the next contracting period. On this basis, the ECS and the Government developed annual electricity procurement guidelines designed to improve the transparency and competition of electricity procurement while maintaining security of supply.

While the target was achieved (an increase in the share of electricity purchased under the published guidelines), the objective of greater transparency and competition was only partly achieved. The Group of Observers identified the need and respective areas for significant improvement in procurement procedures, noting that the Ministry of Economy and Infrastructure plays conflicting roles in the process and is at times unjustifiably involved at different stages of procurement. The Group also observed lack of actual competition, the ultimate objective. The 2019 Group Report was drafted but not made public. The Group ceased its work in 2019. The Guidelines need to be replaced by a new procurement procedure (which, the ICR notes, is expected to be drafted by the Secretariat in collaboration with the sector regulator and market participants).

Pillar B's objective is judged to be MODERATELY SATISFACTORY

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

The Pillar A objectives are judged to be achieved at a level Moderately Satisfactory. Pillar B objectives are judged to be achieved at a level Moderately Satisfactory. Overall efficacy is judged to be Moderately Satisfactory.

Overall Efficacy Rating

Moderately Unsatisfactory

6. Outcome

Rationale

The relevance of prior actions (design) was rated as satisfactory, and the achievement of objectives was rated as moderately satisfactory. RIs were clearly defined, and the data existed for the measurement of targeted achievements, but their design could have been improved to better capture the efficacy of the operation and the results chain. Many of the prior actions were intermediate outputs that would make incremental steps toward high-level objectives, but subsequent actions by authorities immediately following approval rendered these prior actions significantly less impactful in achieving objectives. These actions caused the Bank, along with the IMF and other development partners, to temporarily suspend programs and seek reversal of these new measures, arguing that they undermined the realization of the EGDPO-supported reforms. The actual results achieved were more limited than envisioned, and the ICR noted that the expected outcomes from six of eight PAs (three in each pillar) were only partially achieved. Since the operation, Moldova has had a change in government and undergone a constitutional crisis following the parliamentary elections in February 2019. In June 2019 a coalition was formed, and both the IMF and EU restored support and the World Bank reinitiated a policy dialogue. However, in November 2019 this coalition was replaced by a new one and a new government has taken power.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

The risk to the outcomes achieved is high. Sustained commitment to reform in a country marked by corruption and political volatility remains a significant risk for reform momentum. As noted in the ICR, vested interests retain significant influence over political, prosecution, and court processes. Several measures have been taken in 2019, and at the international level to investigate the bank fraud suspects and tackle high level corruption, however there are concerns that some of the momentum has faded away given complex and political environment exacerbated by upcoming Fall 2020 presidential elections, the uncertain nature of the governing coalition, and COVID-19 imposed challenges.

The ICR also points to considerable macroeconomic risks linked to impacts of COVID-19 pandemic, which could undermine achievements on fiscal sustainability. Moldova is expected to have entered recession in 2020, which will put further pressure on fiscal and external balances. The IMF program completed right before the pandemic unfolded, incorporated some fiscal consolidation measures. However, presidential elections and COVID-19 crisis may trigger reversal of some of these measures. There are also concerns about the independence of the NBM which could have implications for governance of the financial sector. While after a difficult period the banking sector has regained stability and profitability, risks are building up in nonbanking credit organizations and insurance sector. Both the 2019 IMF program and World Bank TA provided support to the NBM and NCFM to tackle these issues.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The project's objectives were clear and focused, and Prior Actions were based on extensive analytical work. There was a well-articulated and credible results chain between prior actions and objectives. However, project design was predicated on a reform momentum that was recognized to be at significant risk given the political volatility and uncertain policy environment associated with Parliamentary elections expected 6 months following approval. As the ICR notes, operations need to minimize ex-ante the risk of policy reversals or partial implementation of the reforms. The reversal of the pension reform and the incomplete implementation of agricultural reform (as well as the capital amnesty) suggests that additional measures were needed at the design phase to reduce ex-ante these risks, including strengthening accountability mechanisms, building stronger reform coalitions to ensure sustainability across different governments and designing prior actions to encompass more of the expected reform (e.g. secondary legislation for agricultural inputs). The risks of reversal were well articulated in the previous DPO series ICR (DPO2), which noted that oligarchs retained significant influence over the political process and corruption was a serious concern for implementation of EGDPO. While it is unclear these risks could have been avoided following Parliamentary elections, the timing of the operation (six months prior to elections) made these risks particularly great. Further, the results indicators that were developed had shortcomings that prevented them from adequately measuring impact of PAs on the project objectives.

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

Coordination among other development partners providing budget support provided effective leverage over key policy and governance issues. EGDPO exhibited strong coordination with the IMF, the EU and other development partners in responding to the reversal of the measures that undermined the EGDPO reforms., which helped forward reforms in difficult areas like pension, asset declaration and agriculture.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

The overall rating for Bank performance is judged to be Moderately Satisfactory. There were shortcomings in the design of the operation, both in terms of the assessment of risks and in terms of complementary policies/interventions to ensure the full impact of PAs on the objective. To ensure amendments to law aimed at improving access to seeds and inputs had the desired impact on imported agricultural inputs, for example, there was a need to ensure other legislation aligned. Guidelines to improve transparency and competition in wholesale electricity purchase needed to include measures to limit involvement of the Ministry of Economy and Infrastructure (MOEI) in procurement. More generally, the operation provided a set of important reforms in a complex political environment. Bank performance was strong in the implementation phase, especially dealing with reversal and coordination with development partners.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

PA1, in particular, was expected to have a key impact on poverty reduction in the short term. Despite the conflicting policy initiatives which reduced the financial stability of the pension system, the changes in the pension formula have resulted in average old age pension values increasing by 15 percent in real terms. This contributes, at least in the short term, to reduced poverty. The degree to which these gains are sustainable, however, will depend as well on reversing measures that compromise the financial sustainability of the system.

b. Environmental

There were no expected negative environmental impacts of the operation. As the ICR notes, several of the legislative reforms (PA4, PA5) would be expected to make a marginal positive contribution by reducing paper costs of assets and interest declaration and permit filing. PA6, meanwhile, would generate climate co-benefits by expanding access to drought resistant and other weather-variable inputs.

c. Gender

Few of the prior actions associated with the operation were expected to have gender related impacts other than that related to pension reform. PA1 resulted in a 15 percent increase in the real value of pensions from 2016 to 2018, but female pensions went up only by 13.4 percent (compared with 18.5 percent for men).

d. Other

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10. Quality of ICR

Rationale

The ICR is generally thorough and candid in its assessment of the program. It articulates well the context in the country at the time of the operation and specifies with great detail the developments that impacted the achievement of outcomes. It provides a thorough overview of the analytical underpinnings for the prior actions and lays out a credible theory of change from PAs to the objectives. It acknowledges some of the shortcomings in the results indicators for measuring achievements. It provides a thoughtful summary of risks and lessons for future operations.

On the downside, the ICR narrative in some instance is not sufficiently consistent with the ratings. The ICR rates the relevance of Prior Actions as highly satisfactory, despite acknowledging that many of the key actions suffered shortcomings in terms of their ability to impact the overall objectives of improved economic governance over public resources for reduced fiscal risks and leveling the playing field for private investment. The legislative actions taken by authorities immediately after disbursement (particularly in the areas of asset declaration and pensions) had direct and permanent impacts on the ability for the prior actions to contribute to the achievement of the objectives sought.

In the area of efficacy, though the ICR notes that three quarters of the results were only "partially achieved", it rates efficacy as moderately satisfactory. With three quarters of objectives partially achieved in each pillar, guidelines would indicate that each pillar objective was only "partially achieved", and thus overall efficacy would be deemed "Moderately unsatisfactory", at best.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	There were shortcomings in the design of the operation, both in terms of the assessment of risks and in terms of complementary policies/interventions to support the impact of PAs on the objective.
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

This review concurs with the lessons drawn from the ICR (pp. 35-36).

1. Future budget support operations in Moldova need to better reduce ex-ante the risk of policy reversals or partial implementation of the reforms. Future operations need to recognize that the sustainability of reforms may be fragile and political volatility high, especially in election years, thus it is critical to assess reform sustainability, especially in highly sensitive areas subject to extreme political volatility. The 2016 pension reform supported by EGDPO demonstrated how fragile sustained reform was as a result of the political cycle, with pension indexation changes in 2017, 2018, 2019 and again 2020. This suggests the risks might have been better anticipated, and it would be prudent to consider additional ex-ante measures to reduce these risks, including strengthening accountability mechanisms, building stronger reform coalitions to ensure sustainability across different governments and designing prior actions to encompass more of the results chain.
2. To the extent possible, operations should provide a deeper ex ante assessment of risks, especially those related to politics and governance and to institutional capacity. All the risks related to the 2018 elections that were identified, but underrated, in the PD were manifested at the implementation phase. Moreover, in the case of the asset declaration reform, the competent authority, NIA, was itself being restructured. This created an additional technical complication because the IT system had to be transferred from one institution to another with implications for system testing and timely functioning.

Coordination with development partners through complementary actions is crucial during both design and implementation of the reforms to reinforce reform progress and ensure sustainability. For the EGDPO in Moldova, (1) during its design, prior actions were either complemented or supported by other donor programs (IMF, EU), and (2) during implementation, especially after release of the Fiscal Package, joint work and coordinated messages from the development partners community were crucial to address, and in some cases reverse, new initiatives, such as the capital amnesty.

13. Project Performance Assessment Report (PPAR) Recommended?

No