Country Program Snapshot

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth Performance and Prospects

Despite substantial macroeconomic risks and regional challenges, economic performance has been relatively strong over the past few years. Moldova has experienced the highest cumulative GDP growth relative to the precrisis year of 2007 compared to all its regional partners (Romania, Ukraine, Russian Federation, European Union [EU]17), with GDP increasing by 25 percent since 2008. However, growth has been volatile, reflecting the country’s vulnerability to climatic and global economic conditions. In 2012, GDP contracted by 0.7 percent, as agricultural output was hit by a drought (-22.3 percent) and weaker external demand due to the Eurozone crisis. In 2013, growth rebounded, driven by a record harvest in agriculture, with GDP increasing by 9.4 percent.

Growth declined to 4.6 percent in 2014. Exports started to suffer due to the difficult conditions in Moldova’s trading partners and trade restrictions. On the production side, a good harvest for the second year in a row enabled an 8.2 percent growth in agriculture. Industry grew by 7.2 percent, with the food industry as the main contributor.

The path toward European integration anchors growth prospects, and Moldova needs to accelerate economic reforms. This means developing a sound, transparent, and competitive financial sector, reducing the burden of inspections, removing obstacles for exporters (including in agriculture), and channeling remittances into productive investments. Moldova needs to improve the efficiency and fairness of its public expenditure, in particular through better management of public capital investments. Administrative and judicial reforms and less corruption are also needed to secure European integration and economic modernization.

External Sector

The unfavorable regional environment has started to affect Moldova’s external position, especially since the fourth quarter of 2014. The current account narrowed to 3.8 percent of GDP in January–September 2014, with a shift of exports from the Commonwealth of Independent States (CIS) to the EU. At the same time, heightened regional risks reduced inflows on the financial account. The rapid weakening of the Russian ruble in the fourth quarter of 2014 and a reduction in money transfers to Moldova put pressure on the local currency. During October 2014–February 2015, the Moldovan leu lost 23 percent against the U.S. dollar, while foreign exchange reserves declined by 25 percent.

Fiscal Sector Performance and Challenges

The budget deficit shrunk significantly from 2009 to 2014. Since 2009, Moldova has managed to restrain transfers and public consumption (including the wage bill and purchases of goods and services). A good economic performance and revenue collection have reinforced the impact of government actions to control expenditures and improve efficiency. Key actions have included reforms in the education sector (school network rationalization) and in social assistance (the introduction of a new targeted program and the reduction of previous categorical compensation schemes). As a result, the fiscal deficit of the general government has declined by 4.6 percentage points of GDP in the five years since 2009. The deficit narrowed to 1.8 percent of GDP in 2013. In 2014, the targeted deficit was 2.8 percent of GDP; however, external grants increased significantly, resulting in a deficit of 1.8 percent of GDP. Going forward, fiscal discipline will need to be maintained. Higher recurrent expenditures, introduced in mid-2014, will be a challenge for public finances in 2015 as the economy could enter a recession.

The upcoming local elections and institutional weaknesses could hinder reforms. Social pressures and commitments on social insurance and pensions will test fiscal sustainability in 2015 and 2016. Institutional weaknesses are further reflected in tax collection issues.

Budget savings are needed to keep the macro economy stable and to save money for productive infrastructure. The public sector wage bill is high, especially at the local level. Initial strides have been made in the education and health sectors to improve efficiency and thereby free up much-needed resources for quality interventions. These include better teaching and learning materials and training for school principals and teachers in the education sector, and increased expenditures on pharmaceuticals and facilities maintenance in the health sector. However, much remains to be done to improve these sectors’ quality and effectiveness. In addition, steps need to be taken to reform the
pension system and increase pension contributions to make the system sustainable. Public services at the local government level need to be made more efficient and redundant services, and overlapping functions eliminated.

**Macroeconomic Outlook**

Moldova’s economy is projected to go into a recession in 2015, followed by a slow recovery in 2016. Economic troubles in Russia and Ukraine, together with Russia’s restrictions on agro-food imports from Moldova, are expected to push Moldova’s GDP down by 2 percent in 2015. The flexible macro-policy framework of Moldova’s authorities, the trade reorientation to the EU, and the weakness of the trade restrictions on Moldova provide some—albeit small—buffer against the negative impact. A weak recovery of about 1.5 percent in 2016 is projected, as Moldova’s main trading partners from the CIS are expected to recover only gradually, and EU growth is likely to remain below potential. The current account deficit is likely to stay below historical averages, but the higher perception of risks in the region will likely constrain inflows of foreign investment and lending. Inflation is projected to temporarily increase to above the target range of the National Bank of Moldova (NBM) in 2015. The authorities are expected to introduce corrective fiscal measures to keep the budget deficit under 3.5 percent of GDP over the projected period.

**Downside risks to the macroeconomic framework stem from the external environment, weaknesses in the banking sector, and fiscal pressures.** First, the contraction in Russia and Ukraine could be larger, producing a subsequently larger negative impact on growth in Moldova. Geopolitical tensions might intensify further, with additional negative repercussions for Moldova’s economy. Second, the soundness and transparency of the banking sector remain the main domestic policy challenge. In late 2014, the NBM placed three troubled banks that account for 20 percent of the banking system’s deposits under special administration. The authorities need to recognize the losses incurred by the state in the banking sector, to overhaul prudential supervision, and to improve the governance of the sector in order to minimize further risks. Third, a failure to align fiscal policy with available financing might undermine recent achievements in Moldova’s macroeconomic management.

**Poverty**

Despite a sharp decline in poverty, Moldova remains one of the poorest countries in Europe. Based on the Europe and Central Asia (ECA) standardized poverty lines of US$5 per day and US$2.5 per day at purchasing power parity, 46.5 percent of the population was poor and 6 percent was extremely poor in 2012. Farmers and agricultural workers account for 40 percent of Moldova’s poor and 44 percent of those in the bottom 40 percent of the population. Most of the observed poverty reduction has been driven by remittances and higher employment and earnings. The consumption of the bottom 40 percent of the population grew by 2.8 percent in the period 2007–12, outpacing the growth in consumption of the general population (-0.1 percent). However, evidence suggests that the bottom 40 percent are particularly affected by weaknesses in the quality and efficiency of health and education services and especially vulnerable to climate shocks.

**Financial Sector**

High risks exist in the financial sector and require immediate action. Three banks (Banca de Economii [BEM], Unibank, and Banca Sociala) were placed under special administration between late November and mid-December 2014 due to large and opaque transactions between themselves and with foreign banks and companies. These transactions call into question the integrity of their balance sheets and expose the banking sector to significant liquidity and contagion risks. Other banks in Moldova may have also participated in financing these transactions. Despite the known risks since late 2013, the authorities have been hesitant to resolve the banks. These collective delayed actions point to the need for a significant overhaul of governance in the financial system.

**Access to financial services in Moldova is relatively low.** Credit to the private sector as a share of GDP is about 35 percent of GDP, and deposits are about 45 percent of GDP. Access to finance is identified as one of the most pressing issues for enterprise development. Weaknesses in the insolvency regime and in the rights of creditors and debtors create uncertainty and discouragement financial transactions. The financial system is dominated by the banking sector, with assets equaling 70 percent of GDP (small compared to neighboring peers), while insurance, microfinance, and capital markets are very small.
Weak financial sector governance further stifles growth and competition in the sector. Weaknesses in the share registry system have contributed to “raider attacks” in which securities are fraudulently transferred from their rightful owners to others. In 2013, one of the largest Moldovan banks was the subject of a successful hostile takeover by nontransparent investors. These hostile takeovers are characterized by a rapid transfer of ownership of shares to individuals and companies in blocks below the 5 percent change of control threshold (recently amended to 1 percent). At least three banks are believed to have been subject to a change of control as a result of such processes.

The World Bank is providing advice on how to stabilize the banking sector so it can serve the public better. Over the past four years, the Bank has provided advice on amendments to the Capital Market Law and the enforcement powers of financial sector regulatory agencies. The next budget support operation will support financial sector reform.

In addition, the Bank has advised on developing electronic payment and remittance services, enhancing the legal and regulatory framework for the non-banking financial sector, and allowing movable assets to be used as collateral. Finally, the Bank is financing the Competitiveness Enhancement Project II, which contains a US$30 million access to finance component in the form of a credit line for exporting enterprises. The funds are now available to Moldovan exporters through participating local banks.

**Business Environment Reforms**

Moldova needs to deepen regulatory reforms and strengthen the rule of law to encourage private investment. Regulatory reforms implemented in 2001–12 brought slow but steady progress. On the Doing Business distance to the frontier indicator, which measures how far a country is from global best practice, Moldova has risen from 55.9 (in 2006, the earliest available) to 64.5 (in 2014). Reforms have reduced the time spent by management on meeting regulatory requirements from 17 percent in 2005 to 10.7 percent in 2013, as reported by the domestic Cost of Doing Business survey.

Despite this progress, the competitiveness of Moldovan firms remains limited by a business environment characterized by uncertainty and high transaction costs. Moldova now ranks 78th out of 189 economies in the 2014 edition of the Doing Business report, and 89th out of 148 economies in the World Economic Forum’s 2013–14 Global Competitiveness Report. Companies cite substantial barriers related to many aspects of the business environment, from obtaining licenses and permits to importing goods, getting credit, and competing on a level-playing field with other companies. There is also a need for more consistent enforcement of legislation through the judicial system and more effective implementation of the new Law on Competition and the Law on State Aid.

The Deep and Comprehensive Free Trade Area (DCFTA) with the EU was signed in June 2014 and was ratified swiftly in Parliament, along with the Moldova-EU Association Agreement. As it became effective on January 1, 2015, the DCFTA gave Moldovan producers open access to the EU market. Experience has proven that Moldovan exporters have been able to sell increasingly more to the EU market, so businesses are expected to take full advantage of the new opportunities.

The Government has developed and approved a reform program to tackle some of the most important barriers. The 2013–20 Regulatory Reform Strategy and its accompanying action plan shifted the focus from “deregulation” to “smart regulation.” The Roadmap for Removing Critical Barriers in the Business Environment (2013–14) focuses on removing administrative constraints on businesses, facilitating international trade, improving tax administration, and eliminating anti-competitive practices.

**Education**

The Government of Moldova’s objective in education is to improve the education system to meet the needs of the labor market and the broader economy. The demographic decline in the country (the student population has shrunk by over 50 percent since 1991) brings significant efficiency challenges. In response, the Government has taken critical steps toward improving resource allocation by adopting per capita financing and an enabling legislative framework. Sustaining and advancing these reforms with a focus on improving learning results are fundamental steps.
Social Protection

Moldova operates an extensive social protection system, with both a contributory social insurance component and noncontributory social benefits. Total social protection spending is quite large by regional standards; it grew from 9 percent of GDP in 2003 to almost 13 percent in 2013. Of this amount, over 11 percent of GDP was spent on social insurance (mostly pensions), and about 2 percent was used for noncontributory social assistance programs. Against the growing budget envelope, the efficiency of social protection spending raises concerns. Moreover, the changing demographic situation offers challenges and opportunities that the Government needs to address, including by making the social protection programs fiscally sustainable, improving life-long learning so people are productive workers over a longer period of their lifespan, and reducing barriers to immigration, among other factors.

Health

The country has made progress in health reforms over the past decade. The most notable achievement is the introduction of mandatory health insurance in 2004, and around 85 percent of the population is now covered by mandatory health insurance. All citizens also have universal access to primary health care regardless of their insurance status.

Other reforms include: (i) the establishment of family medicine; (ii) increased provider autonomy; (iii) capitation payments for primary care and case-based payment for hospitals; (iv) the introduction of performance-based incentives in family medicine; and (v) steps toward accreditation and quality standards.

The Government is committed to the health of its citizens and spends roughly 13 percent of its annual budget on health. However, significant challenges remain. While death rates have decreased among younger age groups, mortality in adult males has increased. Noncommunicable diseases (NCDs) have become the major burden of mortality and illness, with smoking, alcohol use, unhealthy diet, hypertension, and obesity among the leading NCD risks. Notably, around 50 percent of Moldovan adults have high blood pressure. Adult smoking prevalence is 43 percent compared to the ECA regional average of 31 percent.

Meanwhile, the threat of communicable diseases such as tuberculosis and HIV/AIDS persists. Multi-drug resistant tuberculosis is an increasing public health problem.

The health system remains imbalanced. There are still too many acute care hospital beds, and funds for hospitals (over 50 percent of the health budget) are spread thinly over 73 public hospitals, which are often underutilized and even unsafe. More than 40 percent of the poor are not insured. Around 45 percent of health spending is from patients’ pockets, of which 70 percent is for drugs. The sustainability of the health insurance scheme is threatened by: (i) an unclear benefits package; (ii) the large number of categories eligible for free insurance; and (iii) the inability of the National Health Insurance Company to freely manage strategic purchasing of health services from providers.

In summary, a country with Moldova’s national income and high health expenditure (relative to the GDP) should have better health care.

Environment

Moldova’s main environmental problems are soil degradation, surface water pollution, a lack of sustainable waste management (solid and liquid), and increased groundwater pollution due to poor manure management in rural communities. Moldova has made important progress in protecting the environment and has successfully implemented projects aimed at stopping and reversing soil degradation. It has also made excellent progress on reducing existing quantities of obsolete pesticides contaminated with persistent organic pollutants. The FY14–17 Country Partnership Strategy has a dedicated pillar supporting a green, clean, and resilient Moldova to: (i) boost adaptation and resilience to climate change; (ii) improve natural resource management; and (iii) increase energy efficiency and security.

Forestry

Moldova’s low forest coverage (12 percent versus an EU average of 45 percent) contributes to erosion, floods, and landslides, which lead to the degradation of agricultural land. Due to climate change, forests are likely to become more affected by pests, disease, fires, and droughts, but the sector offers opportunities for sustainable development. Better forest management and afforestation could relieve the
pressure on forests from illegal felling while contributing to climate change mitigation. In addition, the construction of shelter belts will ameliorate land degradation and improve agricultural potential, and the development of local forest-based enterprises will support the poor rural economy.

**Agriculture**

Agriculture is a major contributor to the Moldovan economy. The sector grew by more than 35 percent in 2013 and by more than 8 percent in 2014, showing a potential for becoming a growth engine. In recent years, agriculture has produced 12 percent of GDP and employed 28 percent of the labor force. The importance of agriculture is reflected in the prevailing share of agro-food exports, which are at 45–50 percent of total exports. This share is backed up by the export-oriented agro-processing industry, which produces most of the agro-food exports and adds approximately 7–8 percent to GDP. In spite of its large size and major contribution to the economy, however, the sector exhibits the highest poverty rates. Low incomes from agriculture stem from its weak links to markets and the low competitiveness of outputs. In addition, the degradation of land resources contributes to reduced agricultural productivity, leading to land abandonment and the deterioration of rural livelihoods.

**Energy**

Moldova depends on imports to cover 98 percent of its energy needs. Energy efficiency has been improving slowly over the past 10 years with support from various development partners, but it still requires important investment to reach regional levels.

Significant institutional reforms in the late 1990s helped improve the regulatory environment and the performance of the electricity and gas sectors, and also led to the privatization of two-thirds of the electricity distribution network. In November 2008, Moldovagaz halted gas supplies because of the tariff levels for district heating, which were below cost recovery. Termocom was financially bankrupt and under bankruptcy proceedings from 2001 to 2009. The payables to Moldovagaz accumulated to US$250 million, or 3.5 percent of GDP. The country signed the Energy Community Treaty in March 2010. In order to support the Government in fulfilling its obligations on institutional and market reforms in the energy sector, the EU and the Government of Sweden agreed to finance budgetary support operations in 2011 and 2012, respectively.

**WORLD BANK GROUP PROGRAM IN MOLDOVA**

The World Bank Group Country Partnership Strategy (CPS) for FY14–17 is providing support to help reduce poverty and boost shared prosperity by capturing the full benefits of openness and integration with the EU and the broader global economy through three pillars:

(i) **Increasing Competitiveness.** Continued institutional reform of the business climate and governance, improved access to finance, and activities to improve companies’ competitiveness are needed to reduce barriers and translate economic openness into concrete benefits of more jobs and higher income.

(ii) **Enhancing Human Capital and Minimizing Social Risks.** The widening gap with the EU28 in education and health outcomes should be reduced and progressively closed. Demographic challenges should be addressed. Vulnerabilities should be tackled through strengthened social protection systems.

(iii) **Promoting a Green, Clean, and Resilient Moldova:** the debilitating effects of climatic events on agriculture and rural livelihoods need to be addressed for sustainable development.

A mid-term CPS review is planned for early FY16. The CPS Performance and Learning Review will aim to confirm, together with country authorities, the proposed strategic pillars and make any required adjustments to the lending and analytical program and the results framework through FY17.

The World Bank’s active portfolio includes eight investment projects. Total commitments amount to US$241.3 million. The disbursement ratio for FY14 was 30.2 percent and currently stands at 18.6 percent. Four ongoing projects (50 percent) are rated as moderately unsatisfactory for either achievement of development objectives or implementation progress, and solutions to existing problems are being identified and monitored through regular Program Problem Reviews.
In the current CPS, alongside International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) resources, International Finance Corporation (IFC) operations will continue to focus on investment and advisory activities that enable private sector growth and diversification. Portfolio composition is 90 percent loans, 7 percent guarantees, and 3 percent equity and quasi-equity (equity type only). There are currently no nonperforming loans (NPLs) in 12 active projects. Active programs focus on: (i) promoting investment climate reform; (ii) building risk and NPL management capacity in the financial sector; and (iii) developing public-private partnerships (PPPs) in health. Projects under development would support PPPs for municipal infrastructure and transport.

IFC's strategic priorities are: (i) Agriculture sector: IFC intends to focus on food processing, related industries such as glass and container manufacturing, and advisory projects in food safety; (ii) Infrastructure sector: IFC’s focus is on investments in electricity distribution, district heating, telecoms, water and wastewater and wind energy; (iii) Health sector: This is a key focus as IFC works to attract private sector participation in this underserved market; and (iv) Financial Markets: The goals are to expand lending capacity and improve governance, provide financing and advisory to major banks for lending to underserved small and medium-sized enterprises (SMEs) across sectors, promote energy-efficiency (EE) credit lines, and develop non-bank financial institutions, in addition to risk management advisory for commercial banks.

A strong emphasis on partnerships with other development partners has proven effective in leveraging substantial cofinancing for reforms. Operations in the Bank’s portfolio have attracted the support of other development partners, including the European Commission (EC), the Global Environment Facility (GEF), the German Development Bank (KFW), the Governments of the Netherlands, Sweden, and Switzerland, the United Nations Children’s Fund (UNICEF), and the U.S. Agency for International Development (USAID), which cofinanced IDA operations, financed carbon operations, and provided other forms of support, including for Analytical and Advisory Activities (AAA). The size of the active trust fund portfolio is US$30.9 million. In the current CPS, trust funds continue to play an important role in leveraging financing for reforms.

Trust funds have also been instrumental in strengthening AAA and building capacity. Technical assistance and sector support have been provided in agriculture, education, e-transformation, the financial and private sectors, and energy. In energy, several trust funds have provided support to district heating restructuring and reform, informing the design of the District Heating Efficiency Improvement Project (DHEIP) approved in FY15. In the financial sector, several trust funds have helped strengthen the National Commission of Financial Markets’ (NCFM) institutional capacity and enhance the financial sector regulatory regime in line with international good practices. Trust funds have also provided continued assistance for private sector development through regulatory and business environment reform, increased access to finance, and targeted activities to help improve Moldovan companies’ competitiveness.

AAA delivered in FY15 include: Financial Sector Monitoring technical assistance, a study on Electric Power Market Options, Food Security Notes, and a Forest Policy Note. In addition, a Public Expenditure Review and a District Heating Tariff study are planned for completion in FY15. Programmatic technical assistance in the financial and human development sectors will continue during the current CPS period.

A recent noteworthy example of an analytical collaborative effort is a Briefing Book developed by Moldova's partners, setting out the development community’s viewpoint on key development and cooperation issues and providing a viable platform for policy dialogue and strategic partnership with the Government. In addition, the recommendations provided in the Briefing Book could serve as a reference for the Government’s short and medium-term programming.

These products will be instrumental in moving the structural reforms agenda forward. Future AAA will include public investment management support and continued work on competitiveness and structural reforms, financial sector monitoring, improvements in the governance structure, market development measures, labor, sustainable development technical assistance, and a poverty assessment.
World Bank Sector Assistance

Business Environment: The World Bank has been working with the Government to help improve the investment climate. The Competitiveness Enhancement Project II (CEP II) seeks to increase the competitiveness of Moldovan enterprises by increasing their linkages to markets, improving their ability to access medium- to long-term finance, and improving the business-enabling environment. It focuses on institutional aspects, such as governance of regulatory reform and institutional strengthening of the SME development agency (ODIMM) and export promotion agency (MIEPO). CEP II also provides support for the implementation of key regulatory reforms, a matching grant facility to support export competitiveness in SMEs, and a line of credit.

As part of the Moldova-EU Association Agreement, the Government continues to improve the corporate financial reporting framework. Currently the effort is supported by the regional Strengthening Auditing and Reporting in the Countries of the Eastern Partnership (STAREP) program, implemented through the World Bank Centre for Financial Reporting Reform (CFRR) in Vienna. The key priority for the Government is to align its legislation with the relevant parts of the EU acquis communautaire and good international practices.

Education: The World Bank supports reforms that aim to improve the quality of education while promoting sector efficiency: an IDA credit for the Education Reform Project; a Bank-administered grant from the Government of Japan supporting equal education opportunities for children with disabilities; and Bank-financed technical assistance to provide tailored policy advice, in particular to support the alignment of the education system with labor market needs. In addition, a Global Partnership for Social Accountability (GSPA) Trust Fund has provided a Moldovan nongovernmental organization (NGO) with a grant to assist in empowering civil society to engage local, regional, and national authorities in evidence-based policy and budget dialogue in the sector.

Social Protection: Moldova can achieve a more cost-efficient spending mix of its social assistance programs, and Bank support is instrumental to sustaining these efforts. The Government is committed to policy reforms aimed at integrating the overall social safety net into the platform provided by the targeted Ajutor Social program. The Bank is supporting these efforts via the Strengthening the Effectiveness of the Social Safety Net Project. Pursuing a results-based financing (RBF) approach, the US$37 million IDA credit cofinances the interim transitional costs of expanding the Ajutor Social program, while consolidating other benefits.

The World Bank also maintains a pension reform dialogue. In 2013, the Bank team developed and presented to its Moldovan counterparts the PROST model, which is used in more than 100 countries to simulate pension reforms and inform policy choices.

Health: The World Bank is supporting the Government to address the challenges in this sector through the US$30.8 million Health Transformation Operation. Its objective is reducing NCDs and improving efficiency through the rationalization of hospitals and incentives for health workers. In addition, the Bank is supporting PAS, a Moldovan NGO, to set up citizen monitoring arrangements.

Environment: The World Bank supports the sector through the Moldova Disaster and Climate Risk Management Project (2010–15, US$10 million), which seeks to support the State Hydro-Meteorological Service’s ability to forecast severe weather and to improve its capacity to prepare for and respond to natural disasters.

Forestry: The Bank is providing technical assistance and is funding investment operations. The Forest Law Enforcement and Governance Program (an EU-sponsored initiative) includes capacity building, analytical work, and public awareness efforts, targeted at improving forest governance through strengthening institutional and human capacity. In 2014, the Bank prepared a Forest Policy Note to provide an outside view of the sector and strategic advice and to identify future opportunities for sustainable sector development. The Agricultural Competitiveness Project is providing specialized agro-forestry machinery to help extend and rehabilitate the forest belt network.

Agriculture: The World Bank’s current support to the sector consists of three projects:

1 PROST stands for pension reform options simulation toolkit.
The Moldova Agriculture Competitiveness Project (2012–17, total financing US$25.4 million) promotes market access for farmers and supports their integration into complex supply chains. To achieve this, project activities support: (i) improving food safety; (ii) increasing the number of farmer organizations and improving post-harvest infrastructure; (iii) promoting sustainable land practices; and (iv) strengthening the response to soil degradation. An Additional Financing (US$12 million) is currently under preparation to support farmers affected by the Russian ban on fruit in 2014.

The Moldova Soil Conservation Project (ongoing 2006–18, US$5.44 million) aims at restoring degraded agricultural land and building capacity for the community-based management of these lands. This helps carbon sequestration and the reduction of greenhouse gas.

The Moldova Community Forestry Project (ongoing 2009–18, US$3.5 million) aims to restore degraded land through forestation to increase economic and environmental use for the benefit of rural communities. The project is also providing technical assistance to participating communities for improving forest and pasture management.

Energy: Support to the sector includes the District Heating Efficiency Improvement Project (DHEIP), which will support sector reforms. It will also contribute to improving the operational efficiency and financial viability of Newco, an entity created by the merger of two combined heat and power plants (CHPs) in Chisinau and the assets purchase of Termocom (a district heating distribution company), and to enhancing the quality and reliability of heating services delivered to the population of Chisinau.

The Bank is also conducting two analytical works in the sector. The “Moldova: Electric Power Market Options Sector Study” advises on improving energy security by interconnection with the EU. The “District Heating and Electricity Tariff and Affordability Analysis,” launched in October 2015 with funding by the Energy Sector Management Assistance Program (ESMAP), aims at informing the policy dialogue on energy sector reforms, including the DHEIP operation, and delivering social assistance to ensure the sustainable operation of the energy sector and service delivery.

Looking Ahead

Moldova needs to find a sustainable growth model that creates jobs and opportunities for young people. Private investment, including foreign direct investment (FDI) and exports, will need to play a more prominent role in addition to the dominant drivers of remittances and domestic consumption. Remittance-led growth is not “bad growth,” and remittances will remain a very important share of Moldova’s economy for a long time. Moldova therefore needs to maximize the development gains from migration. Remittances, if captured by the banking sector and efficiently intermediated, could be used to fuel growth. However, Moldova does need to broaden the base of its economy.

Trade integration with product specialization is always important for a small, remote, and poor country. Its total population of 2.9 million in 2014 and that of its two largest cities are arguably too small to support large-scale manufacturing clusters with an adequate skilled labor supply and buoyant consumer demand. There are therefore sound reasons to believe that Moldova’s prosperity will depend in the future on fuller integration into larger markets. A good start, as it has been traditionally in the past, is specialization in the export of agro-based products. Accessing the more demanding EU food markets will require investments in quality and sanitary standards.

Shortcomings in the investment climate are limiting the profitability of businesses and keeping the cost of doing business high. These shortcomings end up reducing the prospects of attracting new FDI and foreign exporters in a post-crisis world where foreign capital is scarcer. There are many problems that need to be addressed: unclear customs and tax legislation that creates opportunities for discretion, bribes, and unfair treatment of certain businesses; administrative decisions made to protect certain economic or political interests; a judicial system that is susceptible to outside influence and bribery; costly overregulation; an underdeveloped and fragile financial system; and the creation by licensing and regulation of monopolies for the export and distribution of agro-based products through which farmers get depressed farm-to-gate prices.

A macroeconomic priority is to sustain the recent gains in fiscal consolidation and macroeconomic prudence. Moldova’s public
sector is still inefficient and heavily skewed toward social projects and transfers to individuals, households, and enterprises. Sustaining fiscal consolidation will require holding down public spending and correcting the underperformance in tax collection. Other key reforms are further optimizing the education system to enhance efficiency; improving the composition of public capital investments, especially through the local budget, by investing an increasing share in productive infrastructure; rationalizing the civil service and payroll to increase staff incentives; and improving the adequacy and long-run fiscal sustainability of pensions.
Map of Moldova (including the breakaway Transnistria region)
The lack of adequate forest cover represents a significant environmental and economic challenge for the Republic of Moldova. The resulting degradation and erosion of agricultural land adversely affect rural communities. Manifestations of soil erosion are a serious problem for about one-third of all agricultural and community land in the country. The ensuing decline in soil fertility has reduced crop yields by more than one-half in some areas. Most of the affected land is in small, patched areas of fewer than 10 hectares, with little or no economic and/or environmental value. Such land has remained in community ownership as “marginal land,” with little interest in its privatization and/or utilization for economic or community purposes. Addressing the problem of “marginal land” by reclaiming its economic and/or environmental value through forestation, while preventing further degradation, is an important instrument in empowering rural communities and ultimately reducing rural poverty.

The **Project Development Objective** is to restore degraded land through forestation to increase economic and environmental use for the benefit of rural communities. In addition to community benefits, the project’s forestation activities would support, through the restored productivity and conservation of the soil, the global objectives of carbon sequestration and a reduction of atmospheric greenhouse gas concentrations.

The project sets out to create community forests and protective forest belts on an area of at least 8,157 hectares, with ensuing estimated emission reductions of 2.8 million tons of CO$_2$ over 30 years. In addition, the project is providing technical assistance to participating communities for improving forest and pasture management. The carbon sequestration activities of the project were validated under the United Nations Framework Convention on Climate Change (UNFCCC) Clean Development Mechanism procedures, allowing for carbon payments from the BioCarbon Fund to begin.

**Results achieved:**

The project has successfully supported:

1. The forestation of more than 10,000 hectares of degraded land (2,000 more than the initial target), resulting in an estimated sequestration of 600,000 tons of CO$_2$ over the project’s five-year duration.

2. A national competitive grant scheme for participating communities to provide grant funding for localized capacity building and improvements in forest and pasture management.

**Key Partners:** The World Bank team works closely with: (i) Moldsilva (State Forestry Agency), which is the implementing agency; (ii) the Ministry of Environment of the Republic of Moldova; and (iii) selected local communities.

**Key Development Partners** include the Government of Japan, which provided grant funding through a Climate Change Policy and Human Resources Development (PHRD) facility.
MOLDOVA: SOIL CONSERVATION PROJECT

**Key Dates:**
- **Approved:** January 16, 2006
- **Effective:** June 16, 2006
- **Closing:** December 31, 2018

**Financing in million US Dollars*:**

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*Source: Client Connection as of March 23, 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*

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The **Project Development Objectives** are to restore a total of 20,000 hectares of degraded agricultural land to productive uses for rural communities and to build capacity for the community-based management of 5,400 hectares of these lands. In addition to community benefits, the project’s forestation activities support, through the restored productivity and conservation of the soil, the global objectives of carbon sequestration and a reduction of atmospheric greenhouse gas concentrations.

The project has set out to restore the productivity of degraded pasturage by means of forestation with tree and shrub species adapted to adverse site conditions, while also ensuring estimated emission reductions of 1.9 million tons of CO₂ by 2015. In addition, technical assistance has been provided to participating communities for improving the pasture management capacity.

**Results achieved:**

The two projects have successfully supported:

1. The forestation of 20,300 hectares. As a result, the project host, Moldsilva, the State Forestry Agency, is receiving regular carbon payments for an estimated total of 1.9 million tons of CO₂ to be sequestered by 2017.
2. The methodology applied in the two projects was successfully registered with the UNFCCC (AR-AM0002) and can now be applied to other forestation/reforestation projects in the world.
3. The projects have supported the implementation of a national competitive grant scheme for participating communities that provided grants to more than 50 localities for capacity-building activities aimed at improving the management of more than 6,000 hectares of community land (mostly pastures).

**Key Partners:**

The World Bank team works closely with:

(i) Moldsilva (State Forestry Agency), which is the implementing agency;
(ii) the Ministry of Environment of the Republic of Moldova; and
(iii) selected local communities.
MOLDOVA: GOVERNANCE E-TRANSFORMATION PROJECT

Key Dates:
Approved: June 9, 2011
Effective: September 29, 2011
Closing: December 31, 2016

Financing in million US Dollars*:

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*Source: Client Connection as of March 23, 2015.
Note: Disbursements may differ from financing due to exchange rate fluctuations.

The Republic of Moldova is struggling with a legacy of a vast bureaucracy its excessive and redundant procedures that result in delays in the provision of public services. Therefore, it began a dramatic turnaround about four years ago by adopting an e-transformation strategy designed to speed up and streamline government service delivery, fight corruption, and promote transparency by placing public services online, adopting an open data policy, and promoting digital tools.

Project Description. The project has two components:

Component 1. e-Leadership Capacity and Enabling Environment: provides support to the e-Government Center; e-Leadership training and civil servant capacity building; strategic communications and partnerships; the development of policy, technical, legal, and regulatory frameworks; and project management.

Component 2. Shared Infrastructure and e-Services Development: provides funding for: (a) establishing and implementing the M-Cloud (Government Cloud Computing Infrastructure); and (b) developing a selected number of e-government services and shared platforms and applications.

Results achieved to date:
(a) E-Government Center and sectorial e-Transformation Coordination Units were established to coordinate e-government initiatives government-wide.
(b) E-Government Policy and more than 40 legislative and sub-legislative acts were approved.
(c) Government-shared computing infrastructure “M-Cloud” was launched.
(d) Open Government Data and Government Services Portals were launched.
(e) A number of e-services and shared platform services were launched: e-Applications for Criminal Record and Activity Licensing, e-Registration to Social and Health Insurances Systems, e-Procurement, Governmental Documents and Records Management System, M-Signature, M-Pay, e-Visa, etc.
(f) More than 2,000 public servants and other employees of central and local public agencies have received e-government training under the project.

Key Partners. The World Bank works closely with the State Chancellery, which is responsible for executing the project through the e-Government Center. The National e-Transformation Council and the Ministry of Information Technology and Communications are playing a major role in driving and approving information and communications technology (ICT) policy, legal, and technical frameworks.

Key Development Partners include the Government of the Netherlands, which has provided complementary financial assistance, and the United Nations Development Programme (UNDP) and the U.S. Agency for International Development (USAID), which are engaged in e-government reforms.
MOLDOVA: SECOND COMPETITIVENESS ENHANCEMENT PROJECT

Key Dates:
Approved: July 11, 2014
Effective: expected by end of September 2014
Closing: January 31, 2020

Financing in million US Dollars*:

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*Source: Client Connection as of March 23, 2015.

The Government of the Republic of Moldova is pursuing a policy agenda to support export-led economic growth. To achieve this goal, the Moldova 2020 national development strategy focuses on improving the business-enabling environment and promoting better access to finance for enterprises as two of its top priorities. The 2014 Roadmap for Increasing Competitiveness also focuses on the need to improve competitiveness at the enterprise level. Therefore, the Second Competitiveness Enhancement Project (CEP II) will help the Ministry of Economy achieve its reform objectives by supporting implementation of: the Government’s regulatory reform strategies, programs to support export growth and small and medium-sized enterprise (SME) development, and initiatives to improve access to medium- and long-term finance for export-oriented enterprises.

The **Project Development Objective** is to increase the export competitiveness of Moldovan enterprises and decrease the regulatory burden they face. This objective will be achieved through a set of measures that aim to: (i) improve the business environment through regulatory reforms that reduce the cost of doing business; (ii) help SMEs and exporters to get access to business development services; and (iii) improve access to medium- and long-term finance for export-oriented enterprises.

**Key Results Expected:**

1. Reduction in management time spent meeting regulatory requirements, from 10.7 percent in 2013 to 8.5 percent in 2020 (as reported in the annual domestic Cost of Doing Business survey)
2. Increase in new export-oriented activities\(^2\) by matching grant recipients, with at least 50 percent of matching grant recipients engaged in a new export-oriented activity by project close
3. Increase in lending to export-oriented enterprises by participating financial intermediaries (PFIs), with average annual growth of 5 percent
4. Medium- and long-term lending by PFIs under a Line of Credit (>24 months) amounting to US$23.4 million by project close

**Key Partners:** The World Bank team works closely with the Project Implementation Unit of the Ministry of Economy and the Credit Line Directorate of the Ministry of Finance.

**Key Development Partners** include USAID’s BRITE (Business Regulatory, Investment, and Trade Environment) project in areas related to regulatory reform and the European Union (EU) in its overall support to private sector development in Moldova.

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\(^2\) Defined as: exporting existing products to new markets or new customers, exporting for the first time, exporting new products to existing or new markets, or selling new products into export-oriented value chains.
MOLDOVA: DISASTER AND CLIMATE RISK MANAGEMENT PROJECT

Key Dates:
Approved: August 5, 2010
Effective: November 10, 2010
Closing: September 30, 2015

Financing in million US Dollars*:

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*Source: Client Connection as of March 23, 2015.
Note: Disbursements may differ from financing due to exchange rate fluctuations.

Moldova is highly vulnerable to natural disasters, particularly droughts and floods that have significant social and economic costs. The incidence of such events has seen a marked upward swing in the past 10 years. Moldova is also situated in a seismic zone, leaving it vulnerable to powerful, potentially damaging earthquakes. Its vulnerability to natural disasters is accentuated by a lack of proper forecasting of weather events, an obsolete infrastructure, a poor institutional setup to manage post-disaster situations, and other limiting capacity issues. Another emerging adverse factor is the increasing climate variability and the uncertainty it brings to agricultural production and thus to the livelihoods of farmers and the country’s food security.

The Project Development Objective is to strengthen the State Hydro-Meteorological Service’s ability to forecast severe weather and improve Moldova’s capacity to prepare for and respond to natural disasters.

The project aims to strengthen the institutional, human, and technical capacity for: (i) enhanced weather monitoring and early warning systems for weather-related hazards that can produce timely and accurate hydro-meteorological forecasts and services; (ii) improved management and response times to natural and man-made disasters; and (iii) assistance to farmers for awareness of, and adaptation to, natural hazards and climate variability.

Results achieved:

- Operation of a dual polarization Doppler radar system resulting in improved precision of forecasting severe weather.
- Establishment of the country’s Emergency Command Center for disaster coordination response.
- Implementation of a Just-in-Time Mobile Communication Platform for the delivery of weather information to farmers via mobile technologies.
- Implementation of more than 50 pilot subprojects aimed at generating and disseminating knowledge about the practical application of agricultural technologies resilient to climate risks.

Key Partners: The World Bank team works closely with the: (i) Ministry of the Environment, (ii) Ministry of Internal Affairs, and (iii) Ministry of Agriculture and Food Industry.

Key Development Partners: Swedish International Development Cooperation Agency (SIDA); the project will benefit from Sida support (US$100,000) for theoretical and practical activities aimed at strengthening the capacity for disaster preparedness and response.
Over the past 20 years, the Government of Moldova made good progress in strengthening family medicine and hospital optimization and ensuring universal access to primary health care regardless of a citizen’s insurance status. While good progress has also been made in reducing death rates among younger age groups, mortality in adult males has increased. Noncommunicable diseases (NCDs) have become the major burden of mortality and illness in the population, with high blood pressure (hypertension) and smoking among the leading NCD risks. Notably, around 50 percent of Moldovan adults have high blood pressure. Adult smoking prevalence is 43 percent, compared to the regional average of 31 percent.

With total health expenditure per capita at around US$360, Moldova spends significantly more on health than comparable countries. However, Moldova’s health outcomes are less than expected given the level of health expenditures. The discrepancy between Moldova’s health expenditures and its performance in health outcomes points to the need to improve the effectiveness of health expenditures in delivering results for health.

To this end, the World Bank developed the Program-for-Results operation to support the Government in addressing the challenges related to NCDs, achieving better value for money and the delivery of better health outcomes.

The Project Development Objectives are to contribute to reducing the key risks for NCDs and improving the efficiency of health services in Moldova. The Health Transformation Operation (HTP) is guided by the National Health Policy 2007–2021 and is further operationalized in the National Health Sector Development Strategy 2008–2017 with financial support from the Medium-Term Budget Framework (MTBF).

HTP consists of a program-for-results instrument with an investment project financing (IPF) component aimed at supporting the Government in meeting the agreed disbursement-linked results. It is expected that the operation will address a range of interconnected sector issues by: (i) contributing to further policy developments in the area of hospital optimization while also reducing acute care hospital beds and further shortening the average length of stay at hospitals, (ii) reducing the smoking prevalence among adults, and (iii) facilitating better management of hypertension.

The IPF instrument aims to address the following technical capacity constraints: (1) strengthening of a diagnostic-related group payment mechanism for hospitals, (2) development of performance-based incentives for efficiency and quality in health care, (3) development of strategies to optimize hospital networks, and (4) monitoring and evaluation of project results (disbursement-linked indictors [DLIs]).

Key Challenges:

1. Due to the program-for-results disbursement to the general budget and the weak MTBF process, the key challenge is to ensure that project proceeds are not diverted to finance other sector needs.
2. Achievement of NCD-related results is largely dependent on cooperation from other sectors and counterparts. Notably, the prevalence of smoking could be reduced only if there is a combination put in place of tax-related measures and a ban on public smoking.
3. Achievement of sensitive results related to hospital optimization would require continued government commitment and support, which is subject to the reconfirmation of the current political leadership.

Key Partners: The World Bank team works closely with the: (i) Ministry of Health, which is responsible for implementing the IPF part of the project (technical assistance component) and reporting to the World Bank on the results achieved; and (ii) National Health Insurance Company (CNAM), which is also responsible for project implementation and the achievement of specific results. Additionally, activities under the project involve close cooperation with National Centre for Health Management (NCHM) and the National Centre for Public Health (NCPH), which are subordinated to the Ministry of Health.

Key Development Partners are the EU, the World Health Organization (WHO), Swiss Development and Cooperation Agency (SDC), German Agency for International Cooperation (GIZ), and other relevant UN agencies engaged in the health sector that have been running complementary financing operations and that coordinate with the World Bank team on policy issues.
MOLDOVA: STRENGTHENING EFFECTIVENESS OF THE SOCIAL SAFETY NET PROJECT

Key Dates:
Approved: June 9, 2011
Effective: October 26, 2011
Closing: June 30, 2016

Financing in million US Dollars*:

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<td>12.0</td>
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*Source: Client Connection as of March 23, 2015.
Note: Disbursements may differ from financing due to exchange rate fluctuations.

Moldova’s spending on social assistance continues to be high compared to the Europe and Central Asia (ECA) regional average of about 1.7 percent of GDP, and even higher when compared to International Development Association (IDA) countries. In 2014, the Government of Moldova spent about 2 percent of GDP on social assistance programs, most of which are poorly targeted categorical benefits. Reforms launched in 2009–10 helped improve the financial sustainability and equity of the social safety net through the expansion of targeted cash transfers such as *Ajutor Social* and the Heating Allowance and the elimination of some inefficient categorical benefits.

The Project’s Development Objective is to improve the efficiency and equity of Moldova’s social safety net through a fiscally sustainable expansion and strengthening of the *Ajutor Social* program. The objective is to be achieved by:

- Supporting the interim transitional costs of expanding the *Ajutor Social* program and consolidating other benefits for the fiscal sustainability of the social safety net.
- Implementing measures to enhance the administrative efficiency of the social safety net through strengthened institutional roles and capacities, improved operating procedures and systems, and better outreach and greater awareness of the need for reforms.

The Project has two components. The first component cofinances the scaling-up of the two targeted cash transfer programs (the *Ajutor Social* and Heating Allowance), while supporting the consolidation and downsizing of other category-based benefits. It links disbursements to the achievement of specific results measured by “disbursement-linked indicators” (DLIs). The second component invests in strengthening the institutions responsible for the design and administration of the social assistance system, with a focus on the *Ajutor Social* program.

Results achieved:

- After showing good progress in 2011–12, the project has experienced difficulties because the coverage of the targeted cash transfers has shrunk. In late 2014, the beneficiary take-up significantly intensified. The targeted benefits coverage is now gaining momentum, which is critical to achieving the project’s objectives and to supporting poor households in time of economic crisis. The launch of the new management information system eliminated most of the paper-based procedures and streamlined the benefits application. The turn-around time for *Ajutor Social* application processing was reduced from 30 to 11 days between 2010 and 2014.
- Establishment of the Social Inspection unit helped reduce losses from fraud and errors in the social benefits system by 29 percent relative to 2010.

Key Partners: The World Bank team works closely with the Ministry of Labor, Social Protection and Family and the Ministry of Finance.

Key Development Partners include: the International Monetary Fund (IMF), EU, United Nations Children’s Fund (UNICEF), International Organization for Migration (IOM), and other UN agencies engaged in the social protection sector.
MOLDOVA: AGRICULTURE COMPETITIVENESS PROJECT (ACP)

Approved: May 1, 2012  
Effective: September 20, 2012  
Closing: June 30, 2017

Financing in million US Dollars*:

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*Source: Client Connection as of March 23, 2015.  
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Challenges:
Moldova’s climate and relatively high soil fertility give the country a comparative advantage in growing most temperate fruits and vegetables. The production and sale of fresh fruits and vegetables offer the highest potential for increased incomes from domestic sales and exports. However, the transition to more profitable crops, as well as more profitable market segments, continues to be hampered by high capital requirements for post-harvest infrastructure and the stringency of end-market safety and quality requirements. In addition, current farming patterns and ubiquitous land fragmentation lead to the proliferation of unsustainable land management practices that need to be curbed in order to reduce land productivity losses. The Project Development Objective is to enhance 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.

The objectives will be achieved through activities aimed at: (i) strengthening country capacity to manage the increasingly complex food safety agenda; (ii) increasing the levels of farmer organization and improving the post-harvest infrastructure; and (iii) promoting the adoption of sustainable land management practices by farmers and ensuring a strengthened response by the authorities to soil degradation challenges.

Results achieved:

a) Under Component 1: Enhancing Food Safety Management, the country’s Food Safety Agency, a relatively new institution established in 2012, has largely become functional due to the support of the ACP. Three major civil works activities are under way: the rehabilitation of the Food Safety Agency building and the construction of the Border Inspection Points in Tadura on the country’s southeastern border with Ukraine and in Criva on the northern border with Ukraine. Procurement of civil works for another three border inspection points—Leuseni (west), Giurgiulescu (south), and Criva (North) - has been completed and works are expected to commence in the next few weeks. Procurement of works for the construction of the country’s national reference laboratory for the safety of products of vegetable origin (Balti) has been completed. Capacity-strengthening activities at the national reference laboratory for the safety of products of animal origin and animal health aimed at future international accreditation are also advancing. Additionally, the Food Safety Agency continues to receive support for legislative and regulatory improvements, capacity-building activities, training, and knowledge transfer from various international food safety institutions.

b) Under Component 2: Enhancing Market Access Potential, two calls for proposals for matching investment grants from emerging productive partnerships have been completed to date. The first one, carried out in 2014, resulted in awards of US$1.65 million to eight newly created producer groups for a variety of investments in post-harvest processing and the handling of apples, table grapes, and berries. A second call, which ended on January 30, 2015, resulted in a yield of four very solid proposals amounting to US$0.8 million. In parallel, implementation of outreach activities has continued to focus on raising awareness about the project’s competitiveness-enhancing opportunities for fruit and vegetable growers and also about the quality of Moldovan fresh fruits in order to increase domestic consumption.

c) Under Component 3: Enhancing Land Productivity Through Sustainable Land Management, all activities related to the rehabilitation of protective shelter-belts have been implemented on schedule, and the equipment that was procured for these purposes is being utilized efficiently by two mobile mechanized agro-forestry squads. The component’s sustainable land–managed grant scheme has been launched and the first two calls for proposals yielded 91 awards for an amount of approximately US$0.7 million. A second, recently closed call resulted in an additional pool of 80 applications.

Key Partners: Ministry of Agriculture and Food Industry; Ministry of Environment.  
Key Development Partners: Global Environment Facility (GEF), SIDA.
MOLDOVA: EDUCATION REFORM PROJECT

Key Dates:
Approved: January 24, 2012
Effective: July 1, 2013
Closing: August 31, 2018

Financing in million US Dollars*:

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*Source: Client Connection as of March 23, 2015.
Note: Disbursements may differ from financing due to exchange rate fluctuations.

The project directly supports the Government’s education reform program. The project’s objectives are to strengthen the quality of education while supporting the efficiency reforms being implemented in the education sector, and they are in line with the Country Partnership Strategy (CPS) for Moldova 2014–17 by directly contributing to the implementation of the CPS’s second pillar of enhancing human capital and minimizing social risks.

The project has three components:
1. Strengthening the quality of education, which will contribute to higher quality in the general education subsector in Moldova;
2. Improving the efficiency of the education sector by eliminating excess capacity and creating a leaner education system that is better equipped to provide education that meets the demands of a modern economy;
3. Improving the Ministry of Education’s (MoE) capacity to monitor the reform through provision of technical assistance to the MoE to support the implementation, monitoring, and measurement of the education reform program.

Outcome indicators:
1. 70 percent of receiving schools meet the approved school quality assurance standards by year five of the project
2. Average scores for receiving schools in Romanian and math in 4th grade increased
3. Average scores for receiving schools in Romanian and math in 9th grade increased
4. Student-teacher ratio for grades 1–12 is increased from 10.5:1 to 11.5:1.

Intermediate Results Indicators:
1. Updated program for training of school directors and teachers officially approved and implementation initiated;
2. 30 percent of school directors and 10 percent of teachers trained based on the updated program for training of school directors and teachers;
3. New remuneration program for school directors and teachers adopted by the Government;
4. Moldova enrolled in PISA 2015 and the results of Moldova’s participation in this student assessment analyzed and publically disseminated;
5. Administration of revised national testing of all 4th grade students completed;
6. Administration of revised national testing of all 9th grade students completed;
7. System in place to closely monitor and mitigate drop outs (by gender) in general education (using education management information system [EMIS]);
8. School report cards produced and disseminated to schools;
9. 89 percent of primary and secondary schools with budgets approved according to per student formula;
10. 980 classes reorganized in primary and secondary schools;
11. Consolidated EMIS established.

Key Partners: The World Bank team works closely with Ministry of Education, which is responsible for the overall implementation of the project, and Ministry of Finance in this results-based financing operation.

Key Development Partner is UNICEF and the Government of Japan, whose funds are administered by the World Bank via a US$2.86 million grant “Integration of Children with Disabilities into Mainstream Schools,” and the Global Partnership for Social Accountability Program through a US$0.7 million grant “Empowered Citizens Enhancing Accountability of Education Reform and Quality,” implemented by one of the leading think tanks in the country, the nongovernmental organization (NGO) “Expert-Grup.”
Country Program Snapshot

**MOLDOVA: EMPOWERED CITIZENS ENHANCING ACCOUNTABILITY OF EDUCATION REFORM AND QUALITY**

**Key Dates:**
- **Approved:** March 28, 2014
- **Effective:** January 15, 2014
- **Closing:** December 20, 2018

**Financing in million US Dollars***:

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*Source: Client Connection as of March 23, 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*

Moldova was one of the first countries to join the Global Partnership for Social Accountability.

The **Project Development Objectives** are to empower each member country’s civil society to: (i) engage local, regional, and national authorities in evidence-based policy and budget dialogue in its education sector; and (ii) promote an enabling environment for social accountability. The project includes the following specific objectives:

- Facilitate engagement of local stakeholders in approximately 100 schools using social accountability tools and promoting a dialogue on school budgets.
- Facilitate the flow of information from users of education services to local and national authorities.
- Promote the use of three new social accountability tools as inputs into formal education budgetary processes.
- Inform the public about the impact of wider economic and financial conditions on the education sector and reforms (e.g., current situation, availability of budgetary resources, forecast).
- Support the Ministry of Education and other policy stakeholders in improving the quality of data to better support an evidence-based policy-making process.

**Results achieved:**

1. New “Scoala Mea” platform launched under the project facilitates citizens’ engagement in and the monitoring of the quality of education service delivery.
2. Social accountability tools have been developed, promoted, and used for the oversight of the education sector, such as stakeholders’ report cards and public hearings about the school budgets, which are new concepts for Moldova. Budget analyses of schools with infographics have been made and presented by the implementing agency Expert-Grup (a model applied in participating schools and beyond).
3. Training on social accountability tools have been delivered to regional partners and other stakeholders of the project.
4. The Education Sector Open Data Readiness report has been developed, covering dimensions of leadership; legal, policy, and institutional frameworks; responsibilities and skills; sector data; demand for open data; and the funding of relevant initiatives and national infrastructure (with relevant policy recommendations). The Ministry of Education supported the initiative, including through opening education data, for example, opening baccaulaureate exams results for the 2013 and 2014 school years, the first time ever since Moldova’s independence, making school budgets for 2013 and 2014 public, and ensuring legal grounds for open data in the new Education Code that entered into force in November 2014.

**Key Partners:** Ministry of Education, local authorities, and NGOs.

**Key Development Partners:** Global Partnership for Social Accountability Program.
Country Program Snapshot

MOLDOVA: INTEGRATION OF CHILDREN WITH DISABILITIES INTO MAINSTREAM SCHOOLS

**Key Dates:**
- **Approved:** May 14, 2013
- **Effective:** June 24, 2013
- **Closing:** July 30, 2016

**Financing in million US Dollars***:

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<td><strong>2.6</strong></td>
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</table>

*Source: Client Connection as of March 23, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations.

The **Project Development Objective** is to demonstrate through pilot activities that local governments can successfully apply national policies to promote the integration of children with disabilities into the mainstream education system.

Children with disabilities can be successfully integrated into mainstream education and supported in achieving better learning outcomes through the provision of equal educational opportunities. The project aims to demonstrate that this can be achieved through adequate planning, infrastructure investments, teacher training, and community awareness and mobilization. By bringing educators, parents, communities, and local authorities together to help kids benefit from inclusive education, the project aims to build “models of inclusiveness” that can be replicated across Moldova. In the process, the project aims to address the following constraints and challenges related to the integration of children with disabilities into mainstream education. First, the funds are used to help district authorities in rolling out the National Program for the Development of Inclusive Education, including support in assessing the number of children with disabilities and in addressing school infrastructure needs and adequate teacher training. Second, a focus is placed on carrying out 20 demonstration subprojects aimed at the rehabilitation and refurbishment of school facilities to ensure that they are accessible and that they meet the educational needs of children with disabilities, in addition to providing relevant training for parents, teachers, and the community. Third, support is channeled toward the dissemination of experiences and good practices to encourage the national replication of successful practices concerning the integration of children with disabilities into mainstream schools. Integration can be considered successful if it is achieved with improved community support and if it improves educational outcomes for the children. The key performance indicators thus include:

1. Increased participation of school-aged children with disabilities in mainstream education, as measured by the increase in school-years completed in the district in nonresidential schools by children certified as having a disability;
2. Decreased share of people who think that children with disabilities should not go to mainstream schools and kindergartens (from an estimated 45 to 30 percent); and
3. Improved learning environment for children with disabilities and special education needs in 20 pilot schools as measured by the availability of trained educational personnel (including teachers and support staff) and accessible physical infrastructure.

**Results achieved:** Despite the delayed effectiveness caused by the ratification of the grant, this initiative already has a number of visible results. Solid progress has been made on mapping schools and designing the raion (district) action plans for inclusive education in pilots.

**Key Partners:** Ministry of Education and the Ministry of Labor, Social Protection and Family, Moldova Social Investment Fund and local authorities.

**Key Development Partners.** Government of Japan, UNICEF, LUMOS Foundation.

The grant is funded by the Government of Japan, administered by the World Bank and implemented through the Moldova Social Investment Fund (MSIF). Furthermore, UNICEF, the Ministry of Education, and the Ministry of Labor, Social Protection and Family actively participate in the project as members of the Project Supervisory Board.
MOLDOVA: DISTRICT HEATING EFFICIENCY IMPROVEMENT PROJECT

**Key Dates:**
- **Approved:** November 21, 2015
- **Effective:** expected at the end of May 2015
- **Closing:** June 30, 2020

**Financing in million US Dollars***:

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*Source: Project Appraisal Document.

**Project Development Objective** is to contribute to the improved operational efficiency and financial viability of the new District Heating company and to improve the quality and reliability of heating services delivered to the population of Chisinau, Moldova.

**Expected results:**
The project will contribute to the improved operational efficiency and financial viability of Newco, created by the merger of the two combined heat and power plans (CHPs) in Chisinau and the assets purchase of Termocom (a district heating distribution company), and to improve the quality and reliability of heating services delivered to the population of Chisinau.

**Key Partners:** The Ministry of Economy; Newco (*Termoelectrica*).
MOLDOVA: STRENGTHENING THE CAPACITY OF THE COURT OF ACCOUNTS OF MOLDOVA (COA)

Key Dates:
Approved: February 4, 2014
Effective: February 4, 2014
Closed: November 30, 2015

Financing in million US Dollars*:

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*Source: Client Connection as of March 23, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations.

Moldova was one of the countries that benefited from the US$1 million allocation provided by the Russian Government under Multi-Donor Programmatic Trust Fund for Europe and Central Asia Public Finance Management.

The Project Development Objective is to enhance Moldova’s public external audit function by increasing the effectiveness of audit work and strengthening the capacity of the Court of Accounts. It is in line with the goals of the Court of Accounts as outlined in its Strategic Development Plan for FY11–15.

The key components are the following:

(i) Strengthen the capacity to conduct performance audits in specialized areas, including development of methodological guidelines, provision of training, and measurement of impact of audit reports produced by the Court of Accounts;

(ii) Enhance performance systems for effective development and deployment of human resources on audit engagements.

Results Achieved:

The project started with a significant delay due to the slow ratification of the grant, but as of now, all the activities envisaged under this grant are fully operational and are expected to be completed by project closing. Under the first component, two pilot performance audits of independent regulatory bodies have been initiated under the guidance and support provided by the international consultant. In addition, several training sessions on techniques of performance audit were carried out for the court’s staff. The performance audit manual has been revised and updated in line with international standards and practices.

Key Partners: The World Bank team works closely with the Court of Accounts, which is responsible for the overall implementation of the project.

Key Development Partners: The Russian Government, whose funds the World Bank is administering for the purpose of this project. Other development partners include Swedish National Audit Office and the European Union, which are providing complementary support to the Court of Accounts in implementing its Development Strategy.
MOLDOVA: BIOGAS GENERATION FROM ANIMAL MANURE PILOT

Key Dates:
Approved: June 24, 2011
Effective: July 6, 2011
Closing: June 30, 2015

Financing in million US Dollars*:

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*Source: Client Connection as of March 23, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations.

The Project Development Objective is to promote the transfer of new, environmentally sustainable renewable energy technology through piloting the use of animal manure for biogas-based heating and electricity production at the farm level. To raise awareness and create a market for this new technology, the project has three main components:

Component 1: Enabling legislative and policy environment;
Component 2: Technical assistance, capacity building, and awareness raising on sound animal waste management and animal manure-based biodigester and electricity generation technologies
Component 3: Biodigester investment grants.

Results achieved:

- **Extensive training and outreach program has been completed.** Through outreach and awareness-raising activities, over 18,000 participants from farms and households have been reached through 1,840 events, including 579 workshops, 250 round tables, and 1,011 site visits. The project has formally trained over 8,500 beneficiaries in sound manure management practices and the operation of biodigesters, including 5,828 farmers, 884 rayon and local administration representatives, 774 engineers, agricultural and food processing sector specialists, 669 rural entrepreneurs, and 381 consultants. Brochures on sustainable manure management practices, biogas generation from animal manure, and the installation, operation, and maintenance of biodigesters were prepared and published.

- **Adoption rates of sound practices are much higher than expected.** A follow-up survey carried out indicated that at least 11,414 households and farms (63.4 percent of the total number of trainees against the original target of 10 percent) have applied an improved agricultural or manure management practice.

- **Legal framework was found to be conducive for the use of biodigesters in Moldova.** A review of the framework for the use of biodigesters in Moldova was carried out, providing recommendations both on the feasibility of the overall legal framework and the specific steps that need to be taken to legally use biodigesters in Moldova. It was found that the legislation is supportive of renewable energy investments, and no separate licensing of biodigesters is required.

- **A Feasibility Study of the potential for scaling up biogas investments in Moldova has been completed** in collaboration with the Energy Efficiency Agency (EEA) under the Ministry of Economy.

- **The project has supported construction of two biodigesters and technical designs for four sites.** The project has contributed to the installation of one biodigester with technical advice. Construction of another biodigester will be started in spring 2015. Technical designs for biodigesters in four sites have been completed.


Key Development Partners: Global Environment Facility, coordination with SIDA.
IFC MOLDOVA INVESTMENT PROJECT EXAMPLE: TRANS-OIL

Key Dates:
Invested: August 9, 2012
Signed: July 18, 2012
Approved: July 10, 2012

IFC financing (million US Dollars):

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Trans-Oil is a leading grain trader and oilseed crusher in Moldova, headquartered in Chisinau and with operations across the country. IFC has provided a long-term financing package to help the company expand its business and strengthen the sustainability of its operations.

The Project Development Objective. IFC provided Trans-Oil with long-term financing that was not available in Moldova from commercial banks or capital markets. With IFC’s support, Trans-Oil has expanded its business through the acquisition of a local oilseed processor and five silos. The company is also making investments to improve its energy efficiency and raise environmental standards. Cooperation with IFC will help Trans-Oil become a major oilseed crushing and trading group in the region and contribute to the development of the Moldovan economy.

IFC committed (July 8, 2014) and disbursed (July 17, 2014) another US$30 million of a short-term loan, which is IFC’s share of the US$155 million short-term syndicated pre-export facility led by Societe Generale. The facility is supporting the Group’s commodities purchases, storage, and processing during the 2014–15 harvest season for sale to export markets.

The development impact of providing the above mentioned short-term loan is expected to include (i) increased access to finance for a leading agricultural player operating in a key sector of the Moldovan economy, (ii) support for the Group’s growth and generation of higher export revenues, a major source of export income in Moldova, (iii) increased farmer reach by providing a sizable and stable source of financing for the Group’s purchase of commodities from mainly small and medium-sized farmers, and (iv) job preservation and increased tax revenues.

Expected role and additionality: the new project complements IFC’s existing long-term investment and provides funding to help the Group meet its working capital financing needs during the harvest season, broadening its funding base beyond its existing financial network. The Company reported strong profitability and cash generation in FY14 (2013–14) mainly as a result of the rich harvest last year, the availability of working capital financing, and access to additional port terminals, enabling a larger export volume of agri commodities. FY15 (2014–15) is also expected to show growth and strong performance for the same factors. The Company continues to grow, in particular, it has recently acquired port terminals in Reni, Ukraine, and as far as is known, considers other potential expansion opportunities in the region, which are expected to complement and strengthen its existing operations.

Key Expected Results:

- Provide long-term financing to the company, strengthening its balance sheet and enabling it to finance its expansion with long-term funds;
- Support the mobilization of capital: through the B loan, IFC has attracted additional financing from international lenders, helping extend tenors available to the company and broadening the company’s long-term funding base;
- Help improve operational efficiencies and enhance competitiveness by sharing IFC’s global agriculture sector expertise;
- Realize benefits to local farmers by integrating them with higher value-added domestic and international markets;
- Promote job preservation and increased tax revenues; and
- Encourage local and regional companies to consider investments in Moldova.
MOLDOVA: CHISINAU CITY

Key Dates:
Invested: September 23, 2011
Signed: November 15, 2010
Approved: October 15, 2010

IFC financing (million US Dollars):

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<tr>
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Over the past 20 years, investments in the city’s infrastructure were almost nonexistent. As a result, streets with the highest concentrations of traffic have significantly deteriorated, imposing economic costs on road users and having negative consequences for the city’s growth potential and competitiveness. The water supply and sanitation networks required urgent rehabilitation or, in some suburban areas, did not even exist, causing frequent interruptions in service and significant environmental ramifications. The situation was further hindered by the absence of reliable data on the existing networks’ layouts, which resulted in poor quality technical designs and estimates that often deviated from the concrete reality.

The Project Development Objective. As a result of this project, the newly built and rehabilitated water supply and sewerage networks with pumping stations and treatment facilities provide more reliable and higher-quality water supply and sanitation services to about 80,000 city’s inhabitants. The project contributes to further reducing water loses, saving both water and maintenance costs. In addition, about 5 kilometers of the city’s main streets that handle the highest traffic flow are rehabilitated.

Key Results:

- 30 kilometers of new water supply networks
- 4 kilometers of the water supply networks rehabilitated
- 14 kilometers of new sewerage networks
- four pumping stations
- four wastewater treatment facilities
- 5 kilometers of the city’s main streets rehabilitated
## Trust Fund Portfolio

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3 As of March 2015.