RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth Performance and Prospects

Despite a slowdown in external demand and remittances, the economy grew 3.6 percent year-on-year in the first half of 2015. Depreciation stimulated net exports, contributing 3.9 percentage points (p.p.), while the low level of remittances almost halted consumption growth. The low growth of fixed investments was fully offset by a decline in stocks.

Recessions in Ukraine and Russia and domestic political instability worsened Moldova’s external position, while trade reorientation toward European Union (EU) markets continued. Exports to Russia halved and Romania became the largest export market for Moldova. In July 2015, money transfers (a proxy for remittances) to Moldova dropped 30 percent year-on-year. As a result, the Moldovan leu has lost almost a quarter of its value against the dollar since the beginning of 2015 and foreign reserves have declined by 8 percent, though they still cover over three months of imports.

Consumer price inflation has been on the rise and above the target range of the National Bank of Moldova (NBM), prompting the bank to significantly tighten its policy stance. Twelve-month inflation exceeded the target range of 5±1.5 percent in March 2015 and stood at 12.2 percent in August. The depreciation of the leu resulted in higher local currency import prices, and emergency loans to three troubled banks increased liquidity in the system. In response, the monetary authority has raised the base interest rate by 13 p.p. since the beginning of the year to 19.5 percent and significantly tightened the mandatory reserve requirement in national currency.

The Government faces increased fiscal pressures due to lower external assistance and underperforming tax collections. In January–July 2015, the general government deficit was 0.8 percent of GDP, with the Government rationing expenditures to align the fiscal shortfall with available financing. Due to higher borrowing costs, lower collections at customs, and lower official external assistance, the Government restricted the procurement of goods and services.

Higher inflation, lower remittances, and a severe summer drought are likely already affecting living standards in Moldova, pushing poverty into an upward trend. Poverty had been on the decline in recent years, going from 46.4 percent of the population in 2012 (US$5 per day, 2005 purchasing power parity [PPP]) to an estimated 36.6 percent in 2014. However, recent developments are likely to have had a negative impact on household income. Farmers, particularly small ones, have been hard hit by the combination of Russian restrictions and a severe summer drought, and as most of the Moldovan poor reside in rural areas and are employed in agriculture, this is expected to have had an especially negative impact on the rural poor and vulnerable. Moreover, the combination of declining remittances inflows, which account for 15–20 percent of household incomes, and an increase in the unemployment rate (from 3.7 percent in the second quarter of 2014 to 4.1 percent in the second quarter of 2015) have likely put additional downward pressure on household income. Finally, higher consumer inflation has started to erode household purchasing power.

Outlook

Despite a favorable first half of the year, Moldova’s economy is projected to shrink by 2 percent in 2015 as a whole, and poverty levels are expected to increase. The economy is likely to contract sharply by 6 percent year-on-year in the second half of 2015 due to the drought, projected deep recessions in the eastern partner countries, and tighter monetary policy. The 20 percent decrease in remittances and weak domestic credit expansion are likely to lead to a contraction of domestic demand. Moderate poverty rates (US$5 per day, 2005 PPP) are likely to increase by 1.2 p.p. to stand at 37.8 percent. The economic contraction in the second half of the year, coupled with the reduction in remittances and higher inflation, will add to the negative effects on households. Increases in public wages in late 2015 are expected to partially mitigate the income shocks for some groups, but less so for those in the bottom 40
percent of the distribution, who rely relatively less on wage income.

Moldova’s economy is likely to slowly regain its growth momentum in 2016, though still accompanied by modest declines in poverty. The projected slow economic recovery of 0.5 percent will be constrained by still low remittances inflows, subdued consumption, high credit costs, and higher local energy tariffs. Net exports are projected to be the main growth driver, given the exchange rate adjustments and trade reorientation away from Commonwealth of Independent States (CIS) countries. The long overdue increase in utility tariffs will keep inflation above the target range in 2015–16. With a weaker economy, fiscal pressures will persist from high recurrent expenditures, a recognition of the fiscal cost of failed banks, and lower external budget support. For households, despite some recovery in 2016, double-digit inflation—partly from an increase in utility tariffs—and lower remittances are expected to limit any significant improvements in living standards and poverty rates. Moderate poverty is likely to stand at 37.5 percent in 2016.

Challenges

The unfavorable regional environment, the monetary and fiscal costs of resolving Moldova’s troubled banks, and poor governance in the banking sector risk undermining the macroeconomic stability achieved in recent years. With higher projected public debt and lower levels of foreign reserves, Moldova has limited macroeconomic buffers to sustaining a more severe deterioration in economic activity. The recognition of the losses in the banking sector could increase public debt to 47 percent of GDP in 2015 from 32.5 percent a year earlier. It is important for Moldova to maintain the flexible exchange rate arrangement to cushion the impact of adverse external shocks.

Low trade growth and failure to improve the domestic business environment could have a bigger negative impact on Moldova, with further poverty increases. Moving forward, structural reforms are needed to maintain macro-fiscal stability, increase the competitiveness of the Moldovan economy, and boost job creation for more sustainable market income sources for households.

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 significant irregular transactions. Losses due to fraud in these three banks amounted to 10–15 percent of GDP and were covered by NBM lending under a government guarantee, seriously impairing the macroeconomic situation. The Government of Moldova has indicated its intention to liquidate the three banks by October 2015. 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 take resolute action on the three 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 discourage 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 better serve the public. 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 66.6 (in 2015). Reforms have reduced the time spent by management on meeting regulatory requirements from 17 percent in 2005 to 10 percent in 2012, as reported by the domestic Cost of Doing Business survey. However, this indicator has increased gradually in recent years to 10.7 percent in 2013 and 11.3 percent in 2014.

The competitiveness of Moldovan firms remains limited by a business environment characterized by uncertainty and high transaction costs. Moldova now ranks 63rd out of 189 economies in the 2014 edition of the Doing Business report, and 82nd 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) and the Association Agreement 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.” Among other areas, it focuses on removing administrative constraints on businesses, facilitating international trade, improving tax administration, and eliminating anti-competitive practices. The challenge is to ensure that it is fully implemented, with the participation of all the relevant entities.

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. In 2014, the country spent 11 percent of GDP on multiple
social protection programs, which is close to the Europe and Central Asia (ECA) regional average. Of this amount, over 9 percent of GDP was spent on social insurance (mostly pensions) and about 2 percent was used for noncontributory social assistance programs. 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 and emergency health care regardless of their insurance status. For specialized and inpatient care, people must contribute to national health insurance by paying 9 percent of their payroll salary, purchase private health insurance, or pay out of pocket.

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. The prevalence of adult smoking 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. In May 2015, the Government approved tobacco control legislation, which is a step toward promoting a reduction in smoking. However, the tobacco excise tax in Moldova is still lower than in other countries in the region, while the World Health Organization (WHO) has recommended a level of at least 75 percent of the retail price.

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 (15 categories); and (iii) the inability of the National Health Insurance Company to freely manage the strategic purchasing of health services from providers. The quality of care lags far behind the European average. For example, in 2012, the death rate for acute myocardial infarction among inpatients stood at 27.4 percent at rayon (district) hospital level, which is four times higher than the Organisation for Economic Co-operation and Development (OECD) average of 7.9 percent.

In summary, a country with Moldova’s national income and high health expenditure (relative to 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. However, a prolonged drought in 2014-5 will reverse this trend. 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.

The failure of Moldova’s energy regulatory agency to implement agreed tariff methodologies in a timely manner has jeopardized the financial viability of utilities and damaged Moldova’s reputation as an investment destination. Moldova intends, with international financing, to improve its energy security by building electricity and gas interconnections with Romania. However, in the absence of a rules-based domestic market, the financial prospects for energy sector investment are uncertain.

**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 the 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 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$255.3 million. The disbursement ratio for FY15 was 26.8 percent. After turning around 3 problem projects in FY15, only one problem project was left by June 2015: Strengthening the Effectiveness of the Social Safety Net Project (US$37 million IDA, rated moderately unsatisfactory for achievement of its development objective). The project was restructured at the end of FY15 and is awaiting an assessment of further progress by mid-October.

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 96 percent loans and 4 percent equity and quasi-equity. There are currently no nonperforming loans (NPLs) out of a total of 14 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.

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 Advisory Services and Analytics (ASA). The size of the active trust fund portfolio is US$26.4 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 ASA 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.

ASA delivered in FY15 include: Financial Sector Monitoring technical assistance, a study on Electric Power Market Options, Food Security Notes, a Forest Policy Note, a Public Expenditure Review with a focus on agriculture, and programmatic technical assistance in the area of human development. Programmatic technical assistance in the financial and human development sectors will continue during the current CPS period.

A noteworthy example of an analytical collaborative effort in FY15 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 are serving 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 ASA 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 and Enterprise Development: The World Bank has been working with the Government to help improve the investment climate and facilitate enterprise development. 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 (GPSA) 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. Additionally, the Trust Fund for Statistical Capacity Building has recently awarded a grant to Moldova’s Ministry of Education supporting efforts to strengthen the quality and openness of its education statistics to better inform the ongoing education reforms.

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 2013–14, the Bank developed and presented to its Moldovan counterparts the PROST model,¹ and based on its outputs recommended policies aimed at improving the adequacy and fiscal sustainability of the pension system.

Health: The World Bank is supporting the Government’s efforts 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 (2010–16, US$12 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:

The Moldova Agriculture Competitiveness Project (2012–17, total financing US$34.4 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) was approved in FY15 to support farmers affected by the Russian ban on fruit in 2014. Another Additional Financing will be prepared for approval in FY16.

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) (ongoing, 2015–20, US$40.5 million). The project will support sectoral reforms and 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 has completed 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

¹ PROST stands for pension reform options simulation toolkit.
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 efficiently intermediated by the financial system, 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.

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)
**Country Program Snapshot**

**MOLDOVA: COMMUNITY FORESTRY PROJECT**

**Key Dates:**
- **Approved:** May 26, 2009
- **Effective:** May 26, 2009
- **Closing:** December 31, 2018

**Financing in million US Dollars***:

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*Source: Carbon Finance Assessment Memorandum and Client Connection as of September 23, 2015.*

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

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 CO₂ 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 CO₂ 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.
**Country Program Snapshot**

**MOLDOVA: SOIL CONSERVATION FOLLOW-UP PROJECT**

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

**Financing in million US Dollars***:

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<tr>
<td>Prototype Carbon Fund</td>
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*Source: Client Connection as of September 23, 2015.

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

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. The 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 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 pastureland 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 September 23, 2015.
Note: Disbursements may differ from financing due to exchange rate fluctuations.

The Republic of Moldova is struggling with the legacy of a vast bureaucracy and 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 and became operable; “M-Cloud” phase II is currently under implementation.
(d) Open Government Data and Government Services Portals were launched.
(e) A number of e-services and shared platform services were launched: e-Visa, e-Integrity, e-Applications for Criminal Record and Activity Licensing, e-Registration to Social and Health Insurances Systems, Governmental Documents and Records Management System, M-Pass, M-Signature, M-Pay, M-Connect, etc.
(f) Digitization of Civil Status and Cadastral archives was completed.
(g) 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.
Key Dates:
Approved: July 11, 2014
Effective: October 2, 2014
Closing: January 31, 2020

Financing in million US Dollars*:

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*Source: Client Connection as of September 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.

\(^2\) 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: June 30, 2016

Financing in million US Dollars*:

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<td>Total</td>
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*Source: Client Connection as of September 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 has 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 indicators [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, Norway, 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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*Source: Client Connection as of September 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.
- 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 8 days between 2010 and mid-2015.
- 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.
Country Program Snapshot

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 September 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. Additional Financing in the amount of US$12 million, approved in May 2015, will provide compensatory grants to small-scale plum, apple, and grape growers who were affected by Russian export restrictions in 2013 and 2014.

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 Tudora 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), Giurgiulesti (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.
MOLODVA: 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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<td>24.7</td>
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*Source: Client Connection as of September 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. The project is organized around three main areas:
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.

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 the Program for International Student Assessment (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 the number of dropouts (by gender) in general education (using the 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 the Ministry of Education, which is responsible for the overall implementation of the project, and the Ministry of Finance.
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 September 23, 2015.

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

The project’s objectives are to empower Moldova’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 baccalaureate exam 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.
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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*Source: Client Connection as of September 23, 2015.

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

The project’s 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 children 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 rayon (district) action plans for inclusive education in pilots.


MOLDOVA: STRENGTHENING THE CAPACITY OF THE EDUCATION MANAGEMENT INFORMATION SYSTEM

Key Dates:
Approved: August 4, 2015
Effective: 
Closing: May 31, 2017

Financing in million US Dollars*:

<table>
<thead>
<tr>
<th>Financier</th>
<th>Financing</th>
<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant</td>
<td>0.37</td>
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<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>0.37</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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

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

The project’s objective is to strengthen the quality, openness, and use of education statistics to better inform the ongoing education reforms in Moldova.

The grant seeks to support efforts to strengthen the quality and use of education statistics for sector management decisions at various levels. It also promotes an enabling environment for social accountability in the education sector of Moldova through making data available and encouraging citizen oversight of education services and the impact of ongoing reforms. From a gender perspective, access to basic compulsory education does not show any significant disparities, though gender performance gaps exist as evidenced by the Program for International Student Assessment (PISA) 2009 Plus results. The consolidated education management information system (EMIS), to be strengthened as a result of this project, would allow the relevant authorities to monitor enrollment, performance, and other indicators (disaggregated by gender).

Outcome indicators:
- Number of users of created open data web-pages reached 1,000 people
- EMIS data errors for students with unique IDs decreased to 1 percent
- 500 administrators trained in analyzing and using the EMIS
- 40 qualified primary teachers trained in analyzing and using the EMIS

Key Partners: Ministry of Education

Key Development Partners: Trust Fund for Statistical Capacity Building
**MOLDOVA: DISTRICT HEATING EFFICIENCY IMPROVEMENT PROJECT**

**Key Dates:**
- **Approved:** November 21, 2014
- **Effective:** August 14, 2015
- **Closing:** June 30, 2020

**Financing in million US Dollars***:

<table>
<thead>
<tr>
<th>Financier</th>
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<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan</td>
<td>40.5</td>
<td>2.4</td>
<td>38.1</td>
</tr>
<tr>
<td>Total</td>
<td>40.5</td>
<td>2.4</td>
<td>38.1</td>
</tr>
</tbody>
</table>

*Source: Client Connection as of September 23, 2015

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

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

**Key Partners:** The Ministry of Economy; Newco (*Termoelectrica*).
Moldova was one of the countries that benefited from the US$1 million allocation provided by the Russian Government under the 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 the 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 September 2015, all the activities envisaged under this grant are fully operational and are expected to be completed by project closing. All project funds are committed as well. Under the first component, two pilot performance audits of independent regulatory bodies have been finalized under the guidance and support provided by the international consultant. In addition, several training sessions on the techniques of performance audits were carried out for the court’s staff. The performance audit manual has been revised and updated in line with international standards and practices.

Under the second component, the guidelines on the audit of the state budget, the compulsory health budget, and the social insurance budget have been developed with the help of a consulting company. The company has also been providing support to the audit of the execution of the state budget and the development of the resulting report, which is to be presented by the Court of Accounts to the Parliament in the fall of 2015. To fulfill their assignment, the company’s experts provide on-the-job training to IT auditors as part of the first pilot IT audit undertaken by the court.

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.
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):

<table>
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<tr>
<th>Financing</th>
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<tbody>
<tr>
<td>A loan</td>
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<tr>
<td>B loan</td>
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<tr>
<td>Parallel loan</td>
<td>20.0</td>
<td></td>
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<tr>
<td>Quasi-equity</td>
<td>15.0</td>
<td></td>
</tr>
</tbody>
</table>

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.

In July 2015, IFC renewed its participation of US$10 million (disbursed on August 7, 2015) of a short-term loan, which is IFC’s share of the US$145 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 2015–16 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’s preliminary financial results for FY15 (2014–15) show strong profitability and cash generation similar to FY14, mainly as a result of the availability of working capital financing and access to additional port terminals, enabling the export of agricultural commodities. FY16 (2014–15) is also expected to show growth and strong performance for the same factors and also on account of the new acquisitions in 2015 and related envisaged synergies. The Company is in an advance stage of negotiations for raising a (re)financing package for expansion into Romania, which is 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):**

<table>
<thead>
<tr>
<th>Financing</th>
<th>Amount</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFC A loan</td>
<td>10</td>
<td>2011</td>
</tr>
</tbody>
</table>

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 of the city’s inhabitants. The project contributes to further reducing water losses, saving both water and maintenance costs. In addition, about 5 kilometers of the city’s main streets that handle the highest traffic flow have been 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
## Country Program Snapshot

### Trust Fund Portfolio

<table>
<thead>
<tr>
<th>Trust Fund Portfolio</th>
<th>(Figures in thousands of USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type</strong></td>
<td><strong>Net Grant Amount</strong></td>
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<td>Moldova Investment Climate Reform Project</td>
<td>3,050.62</td>
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<tr>
<td>How to better inform decisions on jobs and schooling in Moldova</td>
<td>49.00</td>
</tr>
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<td>How to better inform decisions on jobs and schooling in Moldova</td>
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<tr>
<td>Strengthening the Capacity of the Court of Accounts of Moldova</td>
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<td>Moldova Agriculture Competitiveness Project</td>
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<td>Advice on Strengthening Public Investment Management in Moldova</td>
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<tr>
<td>Teacher Reforms in Moldova</td>
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<td>Moldova Soil Conservation Project</td>
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<td><strong>Total</strong></td>
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</table>

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3 As of September 16, 2015.