INTERNATIONAL MONETARY FUND AND INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF MOLDOVA

Joint Staff Assessment of PRSP Preparation Status Report

Prepared by the Staffs of the International Development Association and the International Monetary Fund

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- 1. Moldova finalized its Interim Poverty Reduction Strategy Paper (I-PRSP) and presented it to the Boards of the IMF and IDA on December 15 and December 19, 2000, respectively. At that time, the full PRSP was expected to be completed toward the end of 2001. This plan was overtaken by political events. In December 2000, the President dissolved parliament and elections for a new parliament were held in February 2001. With the incumbent government assuming the role of caretaker, preparation of the PRSP came to a halt. A new government, under the leadership of the Communist Party, was fully established only in May 2001.
- 2. While a principal objective of the new government is to reduce poverty, preparation of the PRSP only resumed in August 2001 when the government had re-established a basic dialogue with the international financial institutions and had familiarized itself with the PRSP process and filled key vacancies created by the departure of officials who had been involved in the initial PRSP. The government has resumed implementation of structural reforms-including health sector reform, anti-corruption measures, and improvement of the business environment. Progress in implementing financial policies has been relatively good, notwithstanding some slippage in fiscal policy where arrears on domestic expenditures and external debt service have accumulated because of lower-than-expected external financing. The 2002 budget envisages an increase in social expenditures, in line with the objectives outlined in Moldova's I-PRSP.
- 3. In light of the political changes and financial difficulties, the IMF and IDA staffs agree with the government that the delay in preparing the full PRSP was understandable. The authorities have now resumed the process and its PRSP Preparation Status Report confirms adequate progress toward the full PRSP. Progress includes an updated I-PRSP, which was approved by the PRSP Coordinating Committee chaired by the President, and subsequently by the government on April 21, 2002, and the introduction of a Medium-Term Expenditure

Framework (MTEF) for the 2003–05 Budget, as stated in the updated I-PRSP. The staffs agree that the MTEF is an important vehicle for strengthening fiscal discipline and rationalizing resources for poverty reduction. Therefore, the staffs urge the authorities to link the MTEF with a full PRSP. This would help ensure consistency between poverty reduction strategies and efficient resource allocation, especially for social sectors. At the same time, the authorities should conduct a thorough fiscal and external sustainability analysis to ensure that the MTEF is consistent with maintenance of macroeconomic stability. Over the next few years, the country will have to accommodate external debt service that will absorb nearly half of central government revenues, while at the same time providing adequate fiscal resources for domestic program funding. The staffs would like to stress the importance of maintaining prudent financial policies and continuing implementation of structural reforms to consolidate and accelerate the recent economic growth and further improve incomes and living standards.

- 4. Despite the above-mentioned progress, the staffs note that participation and consultation with civil society and key stakeholders has thus far been limited. The current organizational structure for formulating the PRSP calls for civil society participation through the Council of Experts. However, details on the role and responsibilities of institutions involved in the process and selection of members and their responsibilities have yet to be worked out. The staffs urge the government to move quickly to involve civil society and key stakeholders in the participatory process through a broad national dialogue. In the staffs' view, the government will need technical support for this purpose because of Moldova's limited experience with broad public participation in policy-making processes.
- 5. The staffs note the importance of assistance the authorities have requested from external development partners to support their efforts to formulate a full-PRSP. Technical assistance is now being mobilized by the international donor community to support the PRSP process. For example, the UK Department for International Development (UK DFID) is currently reviewing the government's request for assistance to continue strengthening its capacity in implementing a medium-term expenditure framework. IDA is working with the government to develop a three-year action plan designed to strengthen capacity in poverty analysis, monitoring, and evaluation (i.e., the poverty and social impact analyses or PSIA). Such a plan is expected to streamline the role and responsibilities of key institutions, and strengthen their capacity to collect, analyze and disseminate poverty data. Additionally, IDA will help the authorities conduct a stakeholder analysis as inputs to a participation action plan (expected to be completed by summer 2002). To this end, IDA will finance an international civil society organization (CSO) to provide guidance and training to government officials and local CSOs.
- 6. Based on the above, the proposed timetable for completion of a full-PRSP by March 2003 seems realistic. However, risks remain owing to Moldova's relatively weak institutional capacity and its vulnerability to external shocks. The continued support of international donors is needed to improve the analytical, logistic, and financial capacity of the government, thus mitigating the risk of weak implementation. If the above timeline proves to be too

optimistic, owing to unforeseen factors, the authorities would be encouraged to update the PRSP status report.

7. The staffs believe that the government of Moldova is committed to the PRSP process and to reducing poverty. Therefore, the staffs of IDA and the IMF consider that progress on the development of the full PRSP, as evidenced by the PRSP Preparation Status Report, is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staffs recommend that the respective Executive Directors of IDA and the IMF reach the same conclusion.

ORGANIZING THE PROCESS FOR THE DEVELOPMENT OF PRSP Participatory Process Donors, investors COORDINATING COUNCIL 10 Secretariat of the Participanțs Parliament, nancing the projects and under THE PRESIDENT OF RM **Coordinating Council** participatory process 8 Developing PRSP concept Coordinating PRSP development process Putting forward proposals for initiatives of the Informing, Information broadcasting, ethodological support in developing the PRSP Local public administration documenting authorities, 5 President of RM, legislative drafts and solutions for Non-governmental organizations, Mass-media, Research, surveys $\overline{2}$ of the projects poverty reduction Adopting decisions on priority projects Consultants Coordinating collaboration eminars, Discussions Committee for (for Participatory Process, for financing) Private sector,
Population,
Donors (support in participating ress Conference negotiations with temational forums donors and investors 6 2 in international forums) 4 1 3 20 [18] 19 Technical Committee Council of Experts
Organizing participatory process Inviting experts, setting up expert groups synthasizing the final PRSP document 13 MASS-MEDIA Group [13] verty assessement monitoring group ress release on events, projects dissemination of information, **17** 16 15 14 feedback. Totalizing data on PRSP promotion verty, including their ow researches Sector expert groups Sector task forces: SEG1: Macroeconomic STF1: Macroeconomic policies policies Information flows: 1: PRSP concept; gathering information for Participatory [12] STF2: Public sector SEG2: Public sector 2: reports on Participatory Process; experts' opinion regarding proposals, projects, final PRSP document 3: decisions on projects reform reform 4: information summary on projects (current and new ones) development development 5: information for financing negotiations 6: the result of financing negotiations 7: agreements signed during negotiation process Social policies Social policies 8: methodological assistance, experience of other countries on 9: information about PRSP development process SEG5: 10: methodological and financial assistance, organizing Education reform Education reform internationa forums: 11: primary information on poverty from Participatory process STF6: SEG6 12: poverty situation analysis by SEGs; Healthcare reform Healthcare reform 13: generalized "picture" of poverty . 14: proposals put forward during Participatory process for [45] experts opinions on proposals submitted in the Participatory process; PRSP serctor projects; 16: reports on current projects; plans of new projects with SEG n . STF n .. Analysis of the situation in the sector Monitoring execution of current projects analysis by SEG: Consultating STF 17: the results of quality control and analysis of projects Analysis of the projects execution/preparation; Articulating PRSP sector blocks 18: information for and from mass-media; 19: information about PRSP development / monitoring results: poverty, PRSP promotion 20: information for Participatory process / results

Figure 1: Institutional Arrangements for PRSP Process

Table 1. The Plan for Developing Poverty Reduction Strategy Paper (PRSP) April 2002-March 2003

Nr.	Objective	ACTIONS AND ACTIVITIES	Participants	Deadline
1.	Identify the mechanism for managing the process of	(i) Setting up the Council of Experts under Coordinating Council responsible for coordinating participatory process	Coordinating Council, Secretariat	June 2002
	PRSP development	(ii) Setting up sector groups of experts	Council of Experts	June 2002
		(iii) Organizing the Forum of experts community and signing the Memorandum between the participants thereof	Council of Experts	July 2002
		(iv) Disseminating information among participants and facilitating the efficient exchange of opinions and comments	Mass-media Group	July 2002
2.	Providing informational basis for targeted poverty reduction and monitoring this process, as well as developing sector strategies	(i) Developing the plan for information gathering necessary for poverty assessment and monitoring and for the development of sector strategies	Sector groups within the Technical Committee, including the Poverty Assessment and Monitoring Group	May 2002
		(ii) Updating poverty characterizing indexes, developing the "picture" of poverty in the Republic of Moldova	Poverty Assessment and Monitoring Group	May 2002
		(iii) Assessing the current analytical researches and identifying additionally required researches for poverty assessment, including in the area of social protection, human development, healthcare, education, agriculture, labor market, etc.	Sector groups within the Technical Committee, including the Poverty Assessment and Monitoring Group	June 2002
		(iv) Improving the household budget survey (as well as other components of poverty monitoring as necessary) as an instrument of poverty assessment and monitoring in consultations with the related ministries.	Poverty Assessment and Monitoring Group (Department of Statistics)	November 2002
		(v) Assessing the impact of the national policies on the level of poverty, estimating the efficiency of using public funds allocated for poverty reduction	Sector groups within the Technical Committee, Poverty Assessment and Monitoring Group	June 2002

otection	Mass-media Group June 2002	Government of the APRIL 2002 Republic of Moldova	Mass-media Group June 2002	MTEF Sector Group March 2003	Sector groups within the Technical Committee	: Negotiations SEPTEMBER 2002 with Donors	Council of Experts, Mass- media Group September 2002		Coordinating Council, Technical Committee, Council of Experts
Ministry of Labour and Social Protection	Mass	Gover Republi	Mass	MTEF	Sector grou Technics	Committee for Negotiations with Donors	Council of Ex	Coun	Coordina Technica Coun
(vi) Completing the social assistance beneficiary database	(vii) Organizing a seminar on nation-wide dissemination of information about the results of poverty assessment	(i) Approval of the updated L-PRSP	(ii) Publicizing the updated I-PRSP	(iii) Developing the medium term expenditure framework for 2004 – 2006	(iv) Developing PRSP preliminary sector strategies	(v) Holding negotiations with donors on financing priority projects	(i) Discussing sector strategies in the context of participatory process framework	(ii) Assessing, analysing and synthesizing sector strategies, information obtained during consultations with the participants to PRSP development, submitting the aforementioned information to the Coordinating Committee	(iii) Finalizing and approval of PRSP
		Developing the medium- term expenditure	framework in line with the	drafted sector strategies			Finalizing PRSP		
		3.					4.		