

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.

Figure 1: Institutional Arrangements for PRSP Process

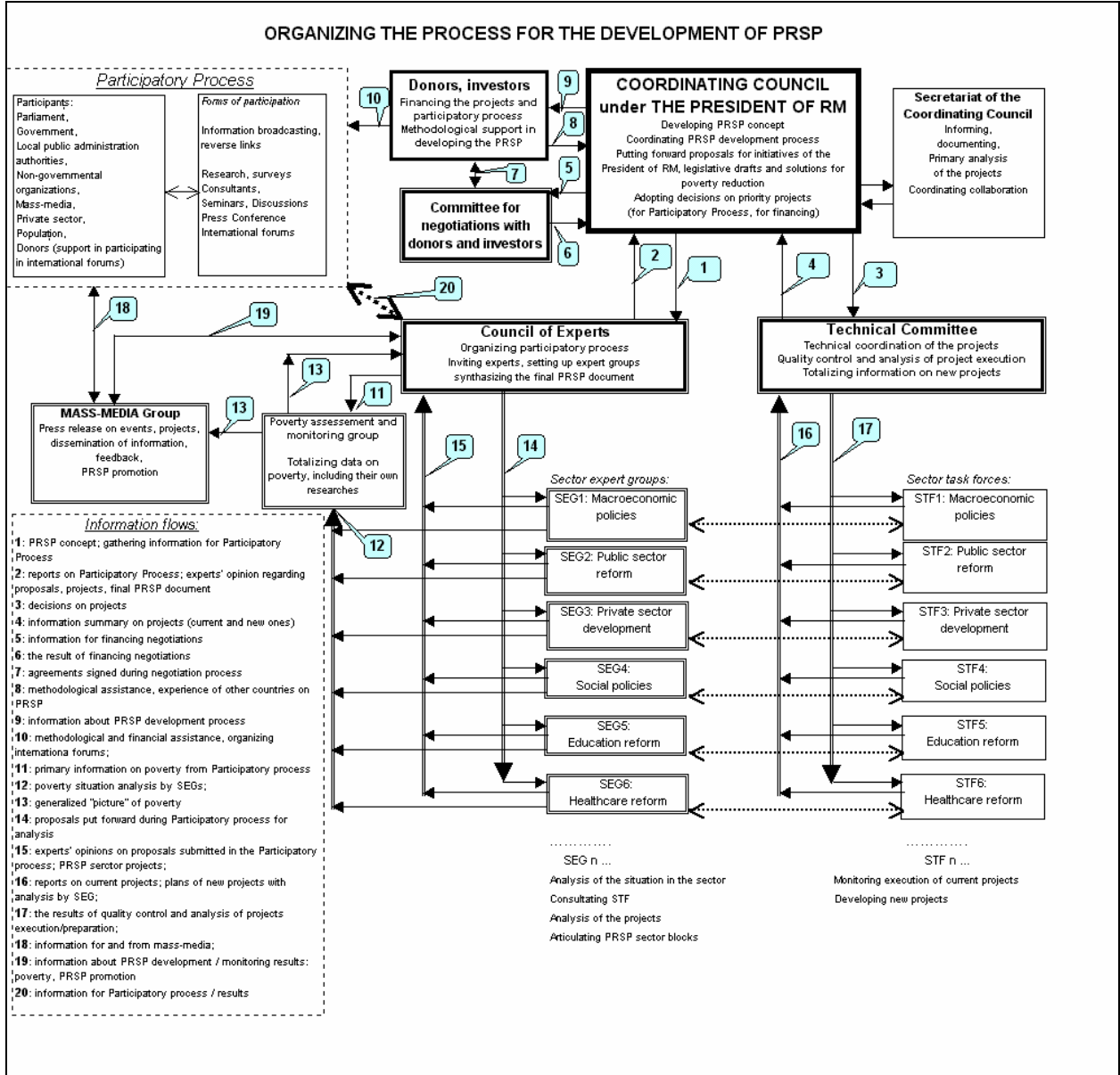


Table 1. The Plan for Developing Poverty Reduction Strategy Paper (PRSP) April 2002–March 2003

Nr.	Objective	ACTIONS AND ACTIVITIES	Participants	Deadline
1.	Identify the mechanism for managing the process of PRSP development	(i) Setting up the Council of Experts under Coordinating Council responsible for coordinating participatory process (ii) Setting up sector groups of experts (iii) Organizing the Forum of experts community and signing the Memorandum between the participants thereof (iv) Disseminating information among participants and facilitating the efficient exchange of opinions and comments	Coordinating Council, Secretariat Council of Experts Council of Experts Mass-media Group	June 2002 June 2002 July 2002 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 (ii) Updating poverty characterizing indexes, developing the “picture” of poverty in the Republic of Moldova (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. (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. (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, including the Poverty Assessment and Monitoring Group Poverty Assessment and Monitoring Group Sector groups within the Technical Committee, including the Poverty Assessment and Monitoring Group Poverty Assessment and Monitoring Group (Department of Statistics) Sector groups within the Technical Committee, Poverty Assessment and Monitoring Group	May 2002 May 2002 June 2002 November 2002 June 2002

	(vi) Completing the social assistance beneficiary database	Ministry of Labour and Social Protection	2002-2005	
	(vii) Organizing a seminar on nation-wide dissemination of information about the results of poverty assessment	Mass-media Group	June 2002	
3.	Developing the medium-term expenditure framework in line with the drafted sector strategies	(i) Approval of the updated I-PRSP	APRIL 2002	
		(ii) Publicizing the updated I-PRSP	June 2002	
		(iii) Developing the medium term expenditure framework for 2004 – 2006	March 2003	
		(iv) Developing PRSP preliminary sector strategies	Sector groups within the Technical Committee	July 2002
		(v) Holding negotiations with donors on financing priority projects	Committee for Negotiations with Donors	SEPTEMBER 2002
4.	Finalizing PRSP	(i) Discussing sector strategies in the context of participatory process framework	Council of Experts, Mass-media Group	
		(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	Council of Experts	August-September 2002 November 2002
		(iii) Finalizing and approval of PRSP	Coordinating Council, Technical Committee, Council of Experts	March 2003

