



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-Dec-2022 | Report No: PIDA35173



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Moldova	P180359	Moldova Emergency Response, Resilience, and Competitiveness Supplemental DPO (P180359)	P175640
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EUROPE AND CENTRAL ASIA	13-Dec-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Moldova	Ministry of Finance		

Proposed Development Objective(s)

The DPO aims to (i) mitigate the impact of the war in Ukraine on refugees and households; and (ii) build resilience and enhance competitiveness to reduce vulnerabilities to future shocks.

Financing (in US\$, Millions)

SUMMARY

Total Financing	43.76
------------------------	-------

DETAILS

Total Non-World Bank Group Financing	43.76
Trust Funds	43.76

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

Energy prices have substantially increased since the approval of first DPO in the series (DPO1), reaching levels that are putting severe strain on households and threaten social cohesion. Due to the spillovers of the war in Ukraine, Moldova is facing unprecedented challenges, which are straining its public finances, despite the country's strong development efforts. With the price of gas reaching a record high in September 2022, the tariff faced by residential households has almost doubled since the approval of DPO1. Moreover, since electricity and heat generation in Moldova is more than 90 percent based on natural gas, tariffs for residential heating and electricity have also increased.

The authorities are moving swiftly to address the energy crisis before the beginning of the cold season. Last month, the government provided resources to Energocom to avoid the potential interruption of gas supply and to purchase electricity from Europe to offset the reduction of electricity supply from MGRES and Ukraine. The authorities have also decided to reduce risks of future gas interruptions and potential spikes in gas prices by planning to purchase in November and December a substantial amount of Moldova's gas needs for the winter. The authorities are also setting up the Energy Vulnerability Reduction Funds (EVRF) to mitigate the impact of gas, heating, and electricity tariffs on households during winter. As a result, a substantial increase in the financing needs can be expected especially during the last months of 2022 and first months of 2023.

In recognition of the impact of the war in Ukraine, including the country's generous hosting of refugees, the World Bank established a multi-donor trust fund (MDTF) to support the DPO series. The MDTF was designed to provide a targeted and rapid mechanism to channel donor contributions to provide grants to the Government of Moldova in support of reforms over the course of the DPO series. Importantly, the MDTF simplifies the process for Moldova of receiving funds while ensuring that the donors support is provided under the DPO's established operational arrangements within an adequate macroeconomic framework for budget support – reducing transaction costs for the government and partners. To date, contributions have been received from Norway and the United States of America to finance this Supplemental DPO, and dialogue is advancing with other donors to provide co-financing grant support through the next DPO in the series.

Relationship to CPF

The supplemental DPO is aligned with the priorities of the upcoming FY23-27 Country Partnership Framework (CPF) as part of a broader effort to support the authorities to respond to the immediate impact of the combined energy and refugee crises and to build resilience against future shocks. The DPO is accompanied by a broader program of technical support, including just-in-time technical advice on issues related to energy security and efficiency, as well as social protection. The World Bank is also conducting a poverty assessment with a focus on the impact of the energy crisis on the poor, as well as an assessment of impacts and needs arising from forced displacement in Moldova. The DPO series is complemented by the current Micro, Small, and Medium Enterprises (MSMEs) Competitiveness Project (P177895) and the pipeline Energy Efficiency (P179280) and Education Quality Improvement (P179363) projects.

C. Proposed Development Objective(s)

The DPO aims to (i) mitigate the impact of the war in Ukraine on refugees and households; and (ii) build resilience and enhance competitiveness to reduce vulnerabilities to future shocks.

Key Results



D. Project Description

The first DPO in the series aimed to help the authorities mitigate the economic impact of the war in Ukraine, while maintaining the momentum on the long-term agenda. The supported measures under Pillar 1 are expected to help the integration of refugees from Ukraine in the labor market and schools. Moreover, to mitigate the immediate impact of higher energy prices, the cold season benefit were increase and its coverage expanded to vulnerable families, while improving the design of the main social assistance program for future shocks. The supported measures under Pillar 2 are expected to help tackle Moldova's inherent vulnerability associated with a small landlocked economy and its reliance on food and energy imports, and an increasing frequency of natural disasters exacerbated by climate change. The supported measures aims at providing more efficient, effective, and transparent support to infrastructure projects; the increase in the capacity of renewable energy generation and enhance energy efficiency; the strengthening of the railway sector to play an increasing role in successfully integrating firms, consumers, inputs, and goods within the country with regional and global markets in a more sustainable manner. The operation supported the digitalization of public services to contribute not only to competitiveness by reducing the cost of dealing with public administration but also by reducing spatial disparities in public service delivery. Supported reforms also strengthen the regulatory framework of the private insurance industry in line with EU Directives to help rebuild trust in the industry by households and firms that need help to be better protected from unexpected shocks.

This operation will channel grant financing from a Multi-Donor Trust Fund (MDTF). It is part of a package of coordinated financial assistance from international partners prepared in response to the ongoing socioeconomic emergency. This includes an augmentation of the IMF Extended Credit Facility (ECF) and Extended Fund Facility (EFF), the EU Macro Financial Assistance, a line of credit from the European Bank for Reconstruction and Development (EBRD), and budget support from bilateral development partners

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance, as the main entity responsible for financial aid coordination and management, will be the main coordinating agency for monitoring and evaluation among the other participating ministries. The World Bank will be monitoring the implementation through regular supervision missions and the preparation of the second operation. The results indicators selected to monitor and evaluate implementation progress and the achievement of program outcomes will be monitored by the institutions that take the coordination lead for the respective prior actions. While most of the indicators are new and will be collected for the monitoring of this operation, some of the indicators selected are already collected and monitored by the associated institution.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The current socio-economic situation highlights further the relevance of the policy measures supported under DPO1, especially the social and distributional effects of the measures under Pillar 1. The policy measures in Pillar 1 aim to connect refugees from Ukraine in Moldova to employment opportunities and key public services, and alleviate the adverse social



and economic impacts caused by the war in Ukraine (e.g., PA3 on the reform of the social assistance). These reforms already have immediate positive social and distributional impacts. The overall impact on poverty is mostly driven by higher energy tariffs, accounting for 19.6 percentage points, while the increase in prices on non-energy products is expected to contribute 7.0 percentage points. With the current government measures in place, including the EVRF, the enhanced APRA and redesigned Ajutor Social (both supported by DPO-1), the impact of rising energy prices can be mitigated by as much as 12.7 percentage points, of which 4.1 percentage points are due to the two measures supported by DPO1. The reforms supported under Pillar 2 aim to build resilience against increasingly frequent crises, which disproportionately affect the poor and vulnerable, and to strengthen the competitiveness of Moldova's economy. The reforms under Pillar 2 are unlikely to have significant distributional impacts in the timeframe of this DPO series. PA7, which starts the process of reforming the railway sector, focuses on safety regulation, track access charging, or a multi-annual infrastructure contract, and does not require, prescribe, or recommend labor rightsizing in the sector.

Environmental, Forests, and Other Natural Resource Aspects

There are no changes to the assessment of environmental impact of policy measures supported by DPO1. PA4 on diversifying energy sources and increasing the capacity of renewable energy, including the sustainable use of biomass, will contribute to further reducing greenhouse gas (GHG) emissions and fulfilling the Republic of Moldova's obligations under the Paris Agreement. PA6 on establishing the National Fund for Regional and Local Development to support infrastructure projects for local development (especially water and sanitation projects) is expected to provide a series of environmental benefits, such as improved water supply, and the reduction and prevention of water-course pollution. At the same time, supported projects in this sector may cause some adverse impacts associated with necessary civil works and wastewater treatment operations, if adequate environmental requirements are not put in place: dust, noise, and soil and water pollution, solid wastes, adverse impacts on flora and fauna, etc. In addition, it could also lead to occupational health and safety impacts and risks, if environmental requirements are not considered in project design and during project implementation. PA7 on the reorganization of railways will help indirectly make this sector more competitive and attractive for users, gradually shifting the mix of transport both for passengers and freight away from the road transport.

G. Risks and Mitigation

Risks to the achievement of DPO program development objectives remain high. While a strong domestic consensus remains around the DPO reform agenda, the impact of the war in Ukraine and the spike in energy prices have created significant uncertainty and risks to the reforms supported by the Program. High and rising energy prices may cause increasing social discontent which, combined with the strong polarization of the electorate, could reduce the popular support for the Government's agenda, even if the Government maintains its strong commitment to the Program. These risks are partially mitigated by the GoM's emphasis on social protection measures and its proactive strategy towards diversification of energy sources, including through the implementation of reforms supported by the DPO series. These risks are also mitigated by strong support from other development partners through technical and financial assistance. Nevertheless, the residual risk remains high.



CONTACT POINT

World Bank

Stefano Curto, James P. Newman
Senior Economist

Borrower/Client/Recipient

Republic of Moldova
Elena Matveeva
Head of the Public Debt Department
elena.matveeva@mf.gov.md

Implementing Agencies

Ministry of Finance
Dumitru Budianschi
Minister of Finance
dumitru.budianschi@mf.gov.md

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Stefano Curto, James P. Newman
----------------------	--------------------------------

Approved By

Country Director:	Arup Banerji	14-Nov-2022
-------------------	--------------	-------------