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Report No: PGD415

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT
FOR A

PROPOSED LOAN
IN THE AMOUNT OF EUR 92.1 MILLION (US$100 MILLION EQUIVALENT)

AND

THE GLOBAL CONCESSIONAL FINANCING FACILITY SUPPORT
IN THE AMOUNT OF US$25 MILLION

AND

MULTI-DONOR TRUST FUND GRANT
IN THE AMOUNT OF US$9.3 MILLION

TO
REPUBLIC OF MOLDOVA

FOR THE

Moldova Emergency Response, Resilience, and Competitiveness DPO2
April 28, 2023

Macroeconomics, Trade And Investment Global Practice
Europe And Central Asia Region

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Republic of Moldova

GOVERNMENT FISCAL YEAR

January 1- December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of March 31, 2023)

Currency Unit: Moldovan Leu (MDL)

MDL 18.30 = US$1 = EUR 0.92

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement (French Development Agency)	MAIC	Multi-Annual Contracts for Railway Infrastructure
APRA	Ajutor pentru Perioada Rece a Anului (Cold Season Benefit)	MDTF	Multi-Donor Trust Fund
AS	Ajutor Social (the Borrower's Social Assistance Program)	MFA	Macro Financial Assistance
CAD	Current Account Deficit	MGRES	Moldavskaya GRES
CFM	Calea Ferată din Moldova	MSMEs	Micro, Small, and Medium Enterprises
CPF	Country Partnership Framework	MTPL	Motor Third-Party Liability
CPI	Consumer Price Index	NBCOs	Non-Bank Credit Organizations
CPSD	Country Private Sector Diagnostic	NBM	National Bank of Moldova
CRW	Crisis Response Window	NBS	National Bureau of Statistics
DGSD	Deposit Guarantee Scheme Directive	NCFM	National Commission for Financial Markets
FGDSD	Deposit Guarantee Fund for the Banking System	NDC	Nationally Determined Contribution
DG NEAR	Directorate-General for European Neighborhood Policy and Enlargement Negotiations	NFRLD	National Fund for Regional and Local Development
DPO	Development Policy Operation	NPLs	Non-Performing Loans
CLR	Completion and Learning Review	OCHA	Office for the Coordination of Humanitarian Affairs
EBRD	European Bank for Reconstruction and Development	OECD	Organization for Economic Cooperation and Development
ECF	Extended Credit Facility	PA	Prior Action
EFF	Extended Fund Facility	PEFA	Public Expenditure and Financial Assessment
ESA	Environmental and Social Assessment	PFM	Public Financial Management
EU	European Union	PPA	Public Property Agency
EVRF	Energy Vulnerability Reduction Fund	PPG	Public and Publicly Guaranteed Debt
FDI	Foreign Direct Investment	PSCs	Public Service Contracts
G2B	Government-to-Business	RBF	Results-Based Financing
GCFF	Global Concessional Financing Facility	RE	Renewable Energy
GD	Government Decision	SA	Social Assistance
GoM	Government of Moldova	SCAs	Savings & Credit Associations
GDP	Gross Domestic Product	SCD	Systematic Country Diagnostic

GHG	Greenhouse Gas	SCM	Superior Council of Magistracy
GMI	Guaranteed Minimum Income	SCP	Superior Council of Prosecutors
GCRF	Global Crisis Response Framework	SMEs	Small and Medium Enterprises
HBS	Household Budget Survey	SOE	State-Owned Enterprise
IFIs	International Financial Institutions	UNHCR	United Nations High Commissioner for Refugees
IMF	International Monetary Fund	VAT	Value-Added Tax
IPF	Investment Project Financing	WBG	World Bank Group
IT	Information Technology	WDI	World Development Indicators
KPI	Key Performance Indicator	yoy	Year-on-year
LPAs	Local Public Authorities		

Regional Vice President:	Antonella Bassani
Country Director:	Arup Banerji
Regional Director:	Lalita M. Moorty
Practice Manager:	Jasmin Chakeri
Task Team Leader:	Stefano Curto

REPUBLIC OF MOLDOVA

MOLDOVA EMERGENCY RESPONSE, RESILIENCE, AND COMPETITIVENESS DPO2

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The Moldova Emergency Response, Resilience, and Competitiveness Development Policy Operation 2 (DPO2) was prepared by the World Bank team led by Stefano Curto and comprising Marcel Chistruga, James Newman, Erik Caldwell Johnson, Warren Paul Mayes, Roman Zhukovskyi, Axel Baeumler, Sandeep Kohli, Koji Nishida, Natalia Timofte, Natalie Nicolaou, Alena Zielinski, Danilo Palermo, Galina Cicanci, Oxana Druta, Elena Lungu, Dominic Pasquale Patella, Constantin Rusu, Trang Van Nguyen, Kristina Noelle Vaughan, Iryna Shcherbyna, Arcadie Capcelea, Adrian Mihailescu, Lulwa Ali, Elena Corman, Alexandra Lelouch Loebl, Eric Ranjeva, Ana Elena Khouri Naissir, and Carolina Odobescu.

The team benefited from the guidance of Arup Banerji (Country Director), Lalita M. Moorty (Regional Director), Inguna Dobraja (Country Manager), Jasmin Chakeri (Practice Manager), and Karlis Smits, Sevara Melibaeva, and Caryn Bredenkamp (Program Leaders).

The team gratefully acknowledges the excellent collaboration of the Government of Moldova.

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P179086	Yes	2nd in a series of 2

Proposed Development Objective(s)

The DPO aims to (i) increase support to refugees and households, and (ii) build resilience and enhance competitiveness to reduce vulnerabilities to future shocks.

Organizations

Borrower:	REPUBLIC OF MOLDOVA
Implementing Agency:	Ministry Of Finance

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**134.30**

DETAILS

International Bank for Reconstruction and Development (IBRD)	100.00
Trust Funds	34.30
Concessional Financing Facility	25.00
Trust Funds	9.30

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Results

Indicator Name	Baseline	Target
Results Indicator #1: Number of female refugees that are granted the temporary protection status.	Zero (2021)	20,000 (2024)
Results Indicator #2: Share of cases solved by the civil protection as a percentage of the requests for assistance from refugees.	Zero percent (2021)	100 percent (2024)
Results Indicator #3: Number of female-headed families receiving social assistance.	26,784 (2021)	32,000 (2024)
Results Indicator #4: Amount of renewable energy capacity auctioned by the Government to the private sector.	Zero MW (2021)	40 MW (2024)
Results Indicator #5: Number of public and residential buildings that have undertaken a full energy efficiency renovation/rehabilitation.	Zero (2021)	50 (2024)
Results Indicator #6: Share of insurance companies complying with the new requirements for assets eligible to cover minimum capital requirements and technical reserves.	60 percent (2021)	100 percent (2024)
Results Indicator #7: Volume of covered deposits as a percentage of eligible deposits.	8.5 percent (2021)	20 percent (2024)
Results Indicator #8: Share of local infrastructure projects financed through the National Fund for Regional and Local Development.	Zero percent (2021)	80 percent (2024)
Results Indicator #9: Number of SOEs that adopt the Corporate Governance Code.	Zero (2021)	15 (2024)
Results Indicator #10: Signed Multi-Annual Infrastructure and Public Service Obligation contracts.	No (2021)	Yes (2024)
Results Indicator #11: Share of new active G2B digital services envisaged by the reform.	Zero percent (2021)	75 percent (2024)

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE REPUBLIC OF MOLDOVA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Operation (DPO) for US$134.3 million—the second in a series of two operations[1]—supports Moldova's efforts to respond to unprecedented challenges arising from Russia's invasion of Ukraine, while maintaining momentum on the long-term agenda of building resilience and enhancing competitiveness.** Moldova has been beset by multiple shocks in recent years, from the COVID-19 pandemic to severe droughts. Just as Moldova was emerging from this series of severe shocks, the social and economic spillovers from Russia's invasion of Ukraine and the energy crisis have put at risk its short-term economic recovery and its long-term economic prospects. In this context, this DPO aims to help the authorities to: (i) increase support to refugees and households, and (ii) build resilience and enhance competitiveness to reduce vulnerabilities to future shocks. The operation is aligned with the World Bank Group (WBG) Global Crisis Response Framework (GCRF).

2. **This operation is part of a package of coordinated financial assistance to Moldova from international partners prepared in response to the ongoing socio-economic emergency.** This package of coordinated financial assistance includes the International Monetary Fund's (IMF) Extended Credit Facility (ECF) and Extended Fund Facility (EFF), and the European Union's (EU) Macro Financial Assistance (MFA), together with budget support from the Directorate-General for European Neighborhood Policy and Enlargement Negotiations (DG NEAR), the Agence Française de Développement (AFD), and the World Bank, with parallel financing to this operation expected from the Japan International Cooperation Agency (JICA). The proposed operation is expected to benefit from US$25 million in concessional financing from the Global Concessional Financing Facility (GCFF)[2] to support the authorities' efforts to deal with the refugee crisis. In recognition of the impact of Russia's invasion of Ukraine, including the country's increased energy vulnerability and its generous hosting of refugees, the World Bank has also established a Multi-Donor Trust Fund (MDTF) for Co-financing of the Moldova Development Policy Program (TF073849). To date, contributions to the MDTF have been received from the United States, Norway, Ireland, and Sweden. The MDTF already provided the grant financing of US$43.76 million through the Supplemental DPO approved on December 2, 2022, and is expected to provide an additional US$9.3 million in grant financing through this operation. Development partners expressed interest in continuing the support of the Moldova MDTF, with indicative uncommitted contributions of US$97 million to be channeled through the DPO series.

3. **Moldova is facing unprecedented challenges due to the spillovers from Russia's invasion of Ukraine, straining its households, the economy, and public finances, despite the Government of Moldova's strong efforts to mitigate their impact**. The macroeconomic conditions have changed substantially since the approval of the first operation (DPO1). Energy prices in particular have been impacted significantly, reaching levels that severely stress households and threaten social cohesion. With the price of imported gas reaching a record high in the fourth quarter of 2022, the average tariff faced by households has reached more than

[1] On June 2, 2022, the World Bank's Board of Executive Directors approved the first in a series of two operations for US$159.24 million.
[2] The Global Concessional Financing Facility (GCFF) is a partnership that brings together bilateral donors, MDBs and the UN system to address the financing needs of middle-income countries hosting large numbers of refugees. By providing concessional resources to multilateral bank loans, the GCFF enables eligible middle-income countries, that are facing refugee crises, to borrow at below regular multilateral development bank rates for projects that provide a global public good. Moldova became an eligible benefitting country to the GCFF in May 2022, enabling potential contributions to the proposed operation and others in the future.

about US$1,500 per 1,000 cubic meters this past winter, up from a tariff of about US$1,000 per 1,000 cubic meters at the time of the approval of DPO1 (June 2022), and only about US$600 per 1,000 cubic meters in the winter of 2021/22. Moreover, since electricity and heat generation in Moldova are more than 90 percent based on natural gas, tariffs for residential heating and electricity have also increased. Despite halted exports of electricity from Ukraine, the increase in tariffs for electricity has so far been less dramatic, mainly due to affordable electricity from the Moldavskaya GRES (MGRES) in Transnistria, which relies on preferential supplies from Gazprom. Moreover, rising input costs (energy and fertilizers), together with last summer's severe heatwave, contributed to a drop of 25.8 percent in agricultural output, widening the current account deficit and exacerbating inflation.

4. **The authorities moved swiftly and showed considerable flexibility in addressing the energy crisis.** In October 2022, the Government of Moldova (GoM) recapitalized Energocom to avoid the potential interruption of the gas and electricity supply and reduce the risk of potential spikes in prices. The authorities also purchased sufficient amount of oil in advance necessary for the operation of largest cogeneration powerplant in Chișinău (combined heat and electricity powerplant Thermoelectrica) for the entire cold season, switching generation from gas to oil. They also secured a contract with MGRES in Transnistria to continue providing a large portion of Moldova's electricity needs. Finally, the authorities set up the Energy Vulnerability Reduction Fund (EVRF) to mitigate the impact of higher gas, heating, and electricity tariffs on households during the winter. On the monetary side, the National Bank of Moldova (NBM) swiftly responded to the increase in inflation by significantly tightening monetary policy and flexibly managing its exchange rate policy. Despite these efforts, the impact of the spillovers from Russia's invasion of Ukraine has been overwhelming and felt by households and firms, which are also increasingly concerned about security threats. Against this background and the upcoming local elections, the cabinet was reshuffled and a new prime minister took office in February 2023.

5. **The increased fiscal pressure from the energy sector is accompanied by still large spending related to the massive influx of refugees from Ukraine who have decided to remain in Moldova.** As of April 2023, the United Nations High Commissioner for Refugees (UNHCR) estimates that more than 106,000[3] refugees from Ukraine remained in Moldova. About 40 percent of these refugees are mothers reported to be traveling with children, who represent about 50 percent of total refugees, while the remaining 10 percent are mostly elderly people or those with disabilities. About 65 percent of refugees are women or girls under 18. The influx of refugees is overwhelming for such a small country as Moldova: those refugees who have decided to remain represent about 4 percent of the total population; the adults represent 6 percent of the active labor force;[4] and school-age refugees represent about 9 percent of the pupils that regularly attend pre-kindergarten to secondary schools. Increased spending on social protection will be partially absorbed by spending reprioritization, but it is still expected to result in a higher overall deficit in 2023 than previously anticipated. Moreover, significant uncertainties remain around the socio-economic spillovers of Russia's invasion of Ukraine and energy prices in 2023, which may require additional external support to maintain adequate fiscal buffers throughout the year.

6. **These multiple shocks have revealed Moldova's intrinsic vulnerability and limited resilience.** While the COVID-19 pandemic and influx of refugees were unexpected events, the droughts in 2020 and 2022 have been just the latest in a long and increasingly frequent series of weather-related events that are being

[3] UNHCR. https://data.unhcr.org/en/situations/ukraine
[4] In 2021, 843,400 Moldovan were employed and 28,200 were unemployed for active labor force of 871,600.

exacerbated by climate change. Moldova is highly vulnerable to climate change related to hazards, such as droughts, floods, hail, and wildfires. It is predicted that the impacts of climate change on the country's social, environmental and economic dimensions will intensify in the medium- to long-term, which will have devastating effects on the country's key economic sector—agriculture—and its predominantly rural population, for whom agriculture is a major source of food and income. Around 90 percent of crop production is rain-fed, which makes the agriculture sector highly vulnerable to climate change.[5]

7. **Against this backdrop, the second DPO (DPO2) in the series aims to help the authorities mitigate the economic impact of Russia's invasion of Ukraine, while maintaining the momentum on the long-term agenda.** The support is structured under two pillars:

- **Increase support to refugees and households (Pillar 1):** The long-term management and integration of refugees from Ukraine are important, not only from a solidarity standpoint but also for social cohesion in the host communities. In this context, Prior Action 1 (PA1) supports the establishment of a framework for refugee management, including housing, social assistance, schooling, and employment, with the introduction of a temporary protection mechanism, and harmonization of the migration and asylum processes with the EU legislation. PA2 supports the introduction of a framework and an associated implementation action plan to strengthen the civil protection response and management in emergency situations, including from the influx of refugees. In addition, PA3 supports improving the design of the main social assistance program—Ajutor Social (AS)—to better cope with future shocks, especially shocks affecting families with children.

- **Build resilience and enhance competitiveness to reduce vulnerabilities to future shocks (Pillar 2):** PA4 supports measures to enhance energy efficiency by aligning the Energy Efficiency Law with the EU legislation and ensuring wider implementation of energy efficiency measures in public and residential buildings to complement supported measures on renewables in DPO1. PA5 supports measures to strengthen households' financial resilience by increasing the coverage of the bank deposits guarantee scheme. PA6 supports measures to increase fiscal and institutional resilience by strengthening the corporate governance of state-owned enterprises (SOEs). The prior action complements DPO1-supported measures on improving the efficiency of regional and local infrastructure investments. Given the connectivity challenges facing Moldova, PA7 supports the unbundling of the railway sector to play an increasing role in the economy in a more sustainable and safer manner. Also strategically important for Moldova's competitiveness in an era of rapid digitalization, as witnessed during the COVID-19 pandemic, PA8 supports the digitalization of public services to reduce the cost of dealing with public administration and improve access to finance.

8. **The overall risk to the achievement of the DPO program development objectives remains high.** While a strong domestic consensus remains around the DPO reform agenda, Russia's invasion of Ukraine and its impact on the Moldovan economy and energy prices have increased significantly the uncertainties and risks to the reforms supported by the Program. A further increase in energy costs may cause increasing social discontent which, combined with the strong polarization of the electorate, could reduce the popular support for the GoM's agenda, even if the GoM 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 toward the diversification of energy sources, including through the implementation of reforms supported by the DPO

[5] www.globalsupportprogramme.org

series. These risks are also mitigated by strong support from other development partners through technical and financial assistance. Nevertheless, the overall residual risk remains high.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **The macroeconomic conditions have changed substantially since the approval of the first operation (DPO1), due to the increased spillovers from Russia's invasion of Ukraine, the deepening of the gas crisis after the decision by Gazprom to reduce the supply of gas in the fall 2022, and the severe heatwave during the last summer.** Lower remittances, together with high inflation and greater uncertainties, led to a decrease in private consumption, despite the substantial increase in social assistance and the increase in minimum pensions. Trade disruptions, lower foreign investment inflows, and weak investment sentiment due to the proximity to Ukraine, together with tight monetary conditions, have taken a significant toll on private investment. Net exports made a positive contribution to growth throughout the first half of 2022 before exports started to decelerate in the third quarter and imports experienced a double-digit increase. On the production side, agriculture and construction were the most adversely affected sectors due to rising input costs (building materials and fertilizers), high interest rates, and overall elevated risk sentiment. Moreover, these factors, together with the last summer's severe heatwave, contributed to a drop of 25.8 percent in agricultural output. On the other hand, the financial and insurance sector performed well and contributed 0.4 of a percentage point to overall growth. Against this backdrop, projected GDP growth in 2022 has been downgraded to –5.9 percent—9.8 percentage points lower than the forecast before Russia's invasion of Ukraine (3.9 percent).

10. **Despite a strong export performance, Moldova's external position has deteriorated due to the impact of the energy crisis.** In 2022, Ukraine became Moldova's second-largest export destination country after Romania. Despite this strong export performance, the current account deficit (CAD) widened as the cost of energy imports increased rapidly and remittances decreased by 14.1 percent. On the upside, the trade balance in services improved by 74.4 percent due to strong growth in the export of transport services, after the port of Odesa in Ukraine was closed and some Ukrainian exports were re-routed through the Romanian port of Constanza using Moldova's railways. At the same time, exports of the information technology sector increased by almost 38 percent. The CAD was financed primarily by reserves, debt instruments, and foreign direct investment (FDI) in the form of reinvested profits. Despite this backdrop, foreign reserves stand comfortably at about US$4.3 billion and cover more than four months of imports. External debt, both public and private, decreased marginally to 60.9 percent of GDP.

11. **Inflationary pressures have been building since the second half of 2021 and accelerating following Russia's invasion of Ukraine.** The increase in global energy and food prices, coupled with strong domestic demand, low real interest rates, and moderate currency depreciation, increased inflationary pressures, resulting in a breach of the National Bank of Moldova's (NBM) target of 5 percent +/- 1.5 percent in September 2021. The inflationary pressures have been further fueled by supply chain disruptions exacerbated by Russia's invasion of Ukraine. As a result, the consumer price index (CPI) reached 30.2 percent in December 2022, led by an increase of 55.5 percent year-on-year (yoy) in the regulated prices. Against this backdrop and a relatively stable exchange rate, the monetary authorities responded swiftly by significantly tightening monetary policy at the end of 2021, when the policy rate was just 2.5 percent, reaching 21.5

percent at the end of 2022. The NBM has subsequently swiftly decreased its policy rate by 750 basis points to reach 14 percent in March 2023 after inflation peaked in the fourth quarter of 2022.

12. **The banking sector shows signs of resilience, although non-performing loans (NPLs) remain high.** After a temporary withdrawal of bank deposits due to rising concerns among the public in the first weeks of Russia's invasion of Ukraine, the situation has now normalized. The banking sector has remained well-capitalized and liquid, with strong results in terms of profitability. Although the ratio of NPLs to total loans has continued its long-term decline since the country's 2014 banking crisis—decreasing to 6.4 percent in December 2022, down from 7.4 percent in 2020—it may deteriorate with high interest rates and once the full impact of the spillovers from Russia's invasion of Ukraine on economic activity and household disposable incomes materializes. Moreover, the non-banking financial sector remains a source of vulnerability, with a significant number of insurers at risk of insolvency and showing signs of weak capacity to pay claims.

13. **The fiscal position proved to be resilient in 2022, despite headwinds from Russia's invasion of Ukraine.** The fiscal balance registered a deficit of only 3.3 percent, thanks mainly to a strong revenue performance. Revenues increased by 18.3 percent due to higher imports and domestic prices, advance payments of corporate income tax, and grants offered by development partners to soften the fiscal pressures stemming from the surge in refugees and the energy price crisis. Public spending increased by 22.4 percent led by social spending (which increased by around 34 percent) and subsidies (which increased by around 23 percent) to provide humanitarian assistance to refugees from Ukraine, and to cushion households and businesses from the impact of Russia's invasion of Ukraine, and the erosion of purchasing power of households due to high food and energy prices. As a result, public and publicly guaranteed (PPG) debt is expected to have marginally decreased to 33.7 percent of GDP in 2022.

14. **Financing requirements have increased despite a lower deficit in 2022.** A substantial amount of cash buffers that were accumulated by the authorities for precautionary reasons were used to mitigate the increase in energy prices and ensure the continued supply of energy and heating toward the end of the year after the decision by Gazprom to reduce the supply of gas. In October 2022, the GoM recapitalized Energocom to avoid a potential interruption of the gas supply and to finance the purchase of electricity from the EU. The GoM also used a European Bank for Reconstruction and Development (EBRD) line of credit to purchase gas from the EU. While the procurement of energy resources did not affect the overall deficit, given that the transactions are recorded as financing rather than expenditure (below the line), this led to a depletion of the cash balance, exposing the fiscal stance to increased pressures in the first half of 2023.

Table 1: Key macroeconomic indicators

	2019	2020	2021	2022	2023	2024	2025
Real economy							
Nominal GDP (MDL, billion)	210.4	199.7	241.9	272.6	304.6	333.6	364.7
Real GDP (percent change)	3.7	-7.4	13.9	-5.9	1.8	4.2	4.1
Per Capita GNI (US$, Atlas Method)	4580	4560	5370				
Contributions:							
Consumption (percentage points of GDP)	*2.9*	*-6.3*	*13.2*	*-2.6*	*3.2*	*4.1*	*3.8*
Gross investment (percentage points of GDP)	1.8	-0.9	5.7	*-1.9*	*0.5*	*1.4*	*1.5*
Net exports (percentage points of GDP)	*-1*	*-0.1*	*-5.0*	*-1.5*	*-1.9*	*-1.3*	*-1.2*
Exports (percent volume change)	8.2	-9.6	17.5	24.9	4.1	4.3	4.8
Imports (percent volume change)	6.2	-5	19.2	17.5	4.5	3.9	4.0
Unemployment rate (ILO definition) (percent)	5.1	3.8	3.3				
GDP deflator (percentage change)	5.4	5.4	6.3	19.8	9.8	5.1	5.0
Consumer price index (CPI) (average) (percent change)	4.7	4.1	5.1	28.7	14.1	6.2	4.9
Fiscal Accounts							
Expenditure (percent of GDP)	29.9	31.4	32.0	33.6	32.0	32.2	32.5
Revenues (percent of GDP)	31.3	36.7	33.9	36.8	37.9	36.6	36.2
General government balance (percent of GDP)	-1.4	-5.3	-1.9	-3.3	-5.9	-4.4	-3.7
Public and publicly guaranteed debt (eop) (percent of GDP)	27.5	36.4	33.8	33.7	36.3	38.2	38.0
Selected Monetary Accounts							
Base money (M1, percent change)	8.8	29.7	10.0	4.4			
Credit to non-government (percent change)	11.5	10.3	21.0	8.9			
Interest (key policy interest rate) (percent)	5.5	2.7	6.5	20.0			
Balance of Payments							
Current account balance (percent of GDP)	-9.2	-7.7	-12.4	-15.8	-13.5	-11.5	-10.4
Imports (percent of GDP)	55.1	51.5	57.8	64.7	66.1	67.0	67.9
Exports (percent of GDP)	30.5	28	30.6	36.7	37.5	38.3	39.1
FDI (percent of GDP)	3.9	1.3	1.7	0.4	1.4	2.5	2.3
Remittances (percent of GDP)	15.5	15.7	14.8	14.0	14.3	14.7	14.8
Gross reserves (US$, millions) eop	3060	3784	3902	4474			
In months of next year's imports	6.2	5.7	5.3	5.8			
External debt (percent of GDP)	61.6	70.5	64.1	67.6	67.0	67.6	67.9
Terms of trade (percent change)	3.4	15.3	-4.0	-5.0	-0.1	-0.1	0.2
Exchange rate (MDL/US$, average)	17.6	17.3	17.7	18.9			
Nominal GDP (US$, billion)	11.7	11.5	13.7	14.4	15.3	16.0	16.5

Source: World Bank calculations.

Table 2. Key fiscal indicators for the public sector (% of GDP)

	2019	2020	2021	2022	2023	2024	2025
Total revenues (and grants)	29.9	31.4	32.0	33.6	32.0	32.2	32.5
Tax revenues	27.7	29.6	29.4	30.3	29.7	30.2	30.4
Personal income tax	1.9	2.1	2.1	2.2	2.2	2.3	2.3
Corporate income tax	2.6	2.6	2.5	3.2	2.5	2.6	2.6
Property tax	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Value added tax	9.6	9.9	10.6	10.7	10.6	10.8	10.9
Excises	3.0	3.2	3.2	2.9	3.0	3.0	3.1
Taxes on international trade	0.9	1.0	0.9	1.0	0.9	0.9	1.0
Social benefits	8.7	9.6	9.0	9.1	9.2	9.2	9.2
Other Tax	0.9	0.9	0.9	0.8	1.0	1.0	0.9
Non-tax revenues and other revenues	1.4	1.5	1.5	1.7	1.3	1.5	1.6
Grants	0.8	0.3	1.0	1.7	1.1	0.5	0.5
Expenditures	31.3	36.7	33.9	36.8	37.9	36.6	36.2
Wages and compensation	7.4	8.6	7.8	7.9	8.1	7.8	7.9
Goods and services	5.7	6.5	6.9	6.8	6.7	7.1	7.0
Interest payments	0.8	0.9	0.8	1.0	1.8	1.1	1.0
Subsidies	2.1	2.8	1.5	1.7	1.9	1.7	1.6
Social benefits	10.6	12.5	11.7	13.8	14.8	13.1	12.7
Other current expenses, including grants	1.4	1.7	1.6	1.8	1.3	1.5	1.6
Nonfinancial assets	3.3	3.7	3.6	3.8	3.3	4.3	4.4
Primary balance	-0.6	-4.4	-1.1	-2.2	-4.1	-3.3	-2.7
Overall balance	-1.4	-5.3	-1.9	-3.3	-5.9	-4.4	-3.7

Source: World Bank calculations.

Table 3: Balance of payments financing requirements and sources (US$ million)

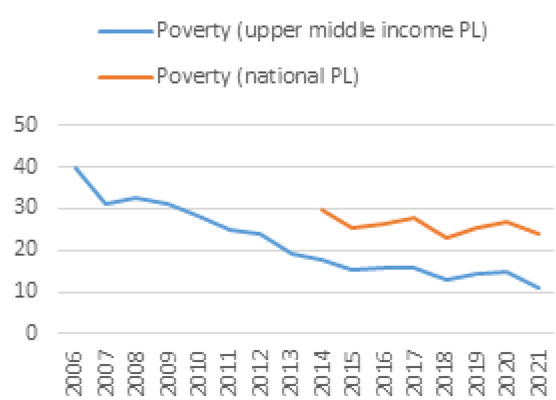
	2019	2020	2021	2022	2023	2024	2025
Financing requirements	**1,624**	**1,427**	**2,158**	**2,743**	**2,585**	**2,419**	**2,348**
Current account deficit (incl. errors and omissions)	1,112	906	1,699	2,275	2,060	1,840	1,720
Private debt amortization	275	276	294	321	348	344	403
Public debt amortization	237	245	165	147	176	235	225
Financing sources	**1,624**	**1,427**	**2,158**	**2,743**	**2,585**	**2,419**	**2,348**
FDI	468	152	391.3	592	227	344	352
Portfolio investments (net)	5	1	-6	0	3	3	3
Private external debt disbursements	1,032	1,352	1,561	1,533	1,608	1,672	1,745
Public external disbursements	234	625	532	1228	1043	656	338
Change in reserves (- increase)	-60	-637	-270	-572	-253	-203	-34
Other capital flows (net)	-55	-66	-50	-38	-43	-53	-56

Source: World Bank calculations.

15. **The sharp increase in energy prices and reduced purchasing power due to high levels of inflation could have led the poverty rate to more than double from the winter of 2021/22, in the absence of mitigation measures.** With average inflation at around 29 percent, households' consumption and incomes are expected to register negative growth in real terms despite an increase by 15 percent in nominal terms. Without mitigation measures, preliminary estimates show that poverty during the 2022/23 heating season would have reached 30.5 percentage points higher than during the previous heating season, equivalent to a

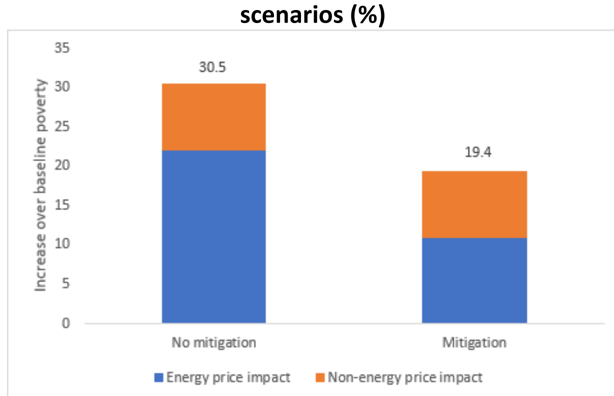
more-than-doubling of the poverty rate across heating seasons. The overall impact on poverty is mostly driven by higher energy tariffs,[6] accounting for 22 percentage points, where the baseline is maintaining the same energy expenditures as in the prior heating season, while the increase in prices on non-energy products is expected to contribute 8.5 percentage points. With the current government measures in place, including the EVRF, the enhanced Cold Season Benefit (APRA), and the redesigned Ajutor Social (both supported by the DPO series), preliminary estimates show that the impact of rising energy prices can be mitigated by as much as 11.1 percentage points, but not completely offset.

Figure 1: Poverty, based on international and national poverty rate (%)



Source: HBS, 2006–2020. World Bank staff calculations.

Figure 2: Increase over baseline poverty during the heating season under mitigation and no mitigation scenarios (%)



Source: HBS, 2021. World Bank staff calculations.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

16. **GDP growth is expected to slowly rebound to 1.8 percent in 2023, reaching its full potential only in 2024.** Reduced household purchasing power due to higher energy and food prices, together with depressed consumer and investor confidence, is expected to continue to affect private consumption. The measures taken by the GoM in 2021 and 2022 (e.g., increase in minimum pensions and indexation, social protection measures, and a higher minimum wage) are expected to partially mitigate the impact of higher energy and food prices on households. However, the main sources of disposable income—salaries, remittances, and most social transfers—are already registering negative growth in real terms, while consumer credit has contracted. The proximity to Ukraine and the spillovers from Russia's invasion of Ukraine pose headwinds to domestic and foreign investment, as well as to net exports. As a result, growth is expected to remain subdued and only slowly rebound to 1.8 percent in 2023, reaching its full potential only in 2024.

17. **High inflation is expected to persist and remain well above the NBM's target until 2024.** Inflationary pressures are expected to persist due to higher international prices, particularly for food, energy and other imports, and the disruption of trade routes. High inflation is expected to persist throughout 2023 and only start to recede slowly toward the NBM's inflation target of 5 percent +/- 1.5 percent in 2024, under the

[6] Utility expenditures (electricity, network gas, and central heating) for households during the 2022–23 heating season were, on average, three times higher than during the same period last year.

assumption of a moderation in import prices and contained second-round effects of the passthrough into wages and pensions. The NBM has decreased its policy rate by 750 basis points to reach 14 percent in March 2023 after inflation peaked in the fourth quarter of 2022. The NBM is expected to reduce its policy rates in tandem with inflation dynamics. NBM is also expected to be moderately active on the foreign exchange (forex) market and smoothen the fluctuations of the national currency, particularly in the heating (winter) season when demand for foreign currency increases due to higher energy imports.

18. **Moldova's external position is expected to weaken in the short term, reflecting elevated import prices coupled with subdued capital inflows due to heightened uncertainty.** With high import prices leading to a nominal increase in the level of imports, and with slowing remittances, the current account balance is expected to deteriorate. In the medium term, the external position is expected to improve as import prices stabilize and the inflow of remittances resumes, once Moldovan migrants move to other destinations. However, the CAD is expected to be higher than in the pre-COVID-19 period and remain reliant on external financing, from bilateral and multilateral partners.

19. **A weakening of Moldova's fiscal position is expected in the short term.** The fiscal stance will be confronted by increasing spending to: (i) protect the purchasing power of households against higher food and energy prices; (ii) procure alternative energy resources; (iii) support refugees from Russia's invasion of Ukraine; and (iv) bolster investment and the reform program. Compensatory measures to mitigate the impact of higher tariffs on households, including through the newly established EVRF, are expected to have increased by about 2 percent points of GDP more than previously anticipated. The additional spending is expected to be partially compensated by the containment of the wage bill, a reprioritization of spending, and efficiency gains. Meanwhile, despite the relatively strong performance in 2022, revenues are expected to slightly decline in real terms as economic activity subsides. As a result, the fiscal deficit is estimated to reach 5.9 percent in 2023. Significant pressure on the fiscal cash buffers is envisaged, particularly in the first half of 2023 amid the depletion of cash buffers in December last year, lower collections, and higher energy prices in the Romanian and EU markets.

Table 4. Public sector financing requirements and sources (US$, million)

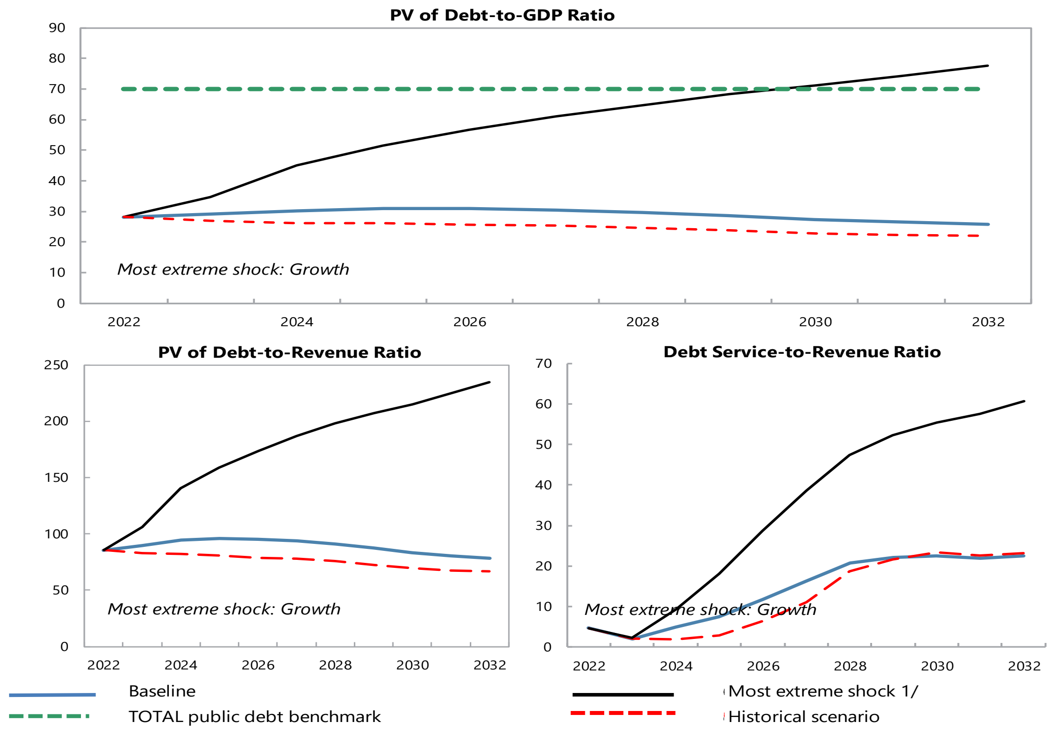
	2021	2022	2023	2024
Financing Requirements	1978	2437	2315	2226
Overall Deficit	260	469	773	702
Amortization on external PPG debt	143	130	136	146
Amortization of domestic PPG debt	1575	1365	1276	1378
Energy procurements/1		473	130	
Financing Sources	1978	2437	2315	2226
Domestic borrowing	1674	1070	1376	1490
Privatization	78	49	40	33
Total external financing	532	1026	855	656
Of which budget support from official creditors	371	460	601	407
IMF	*314*	*173*	*217*	*268*
World Bank	*0*	*150*	*100*	*40*
EC	*57*	*37*	*143*	*51*
Bilaterals	*0*	*100*	*141*	*48*
Cash balance (- increasing cash balance)	-306	292	44	47
Memo				
Cash Balance, public budget (end of year)	671	379	335	288
Grants		202	188	

Source: World Bank calculations.
1/ Includes on-lending financed by the EBRD and Energocom recapitalization

20. **An increase in general government financing requirements is expected in 2023.** The size of the financing needs for 2023 depends primarily on energy supplies, prices, and weather conditions. The increased general financing needs are expected to be fully financed by an increase in support from multilateral and bilateral partners, including the IMF's ECF and EFF, the EU's MFA, and budget support from the DG NEAR, AFD, and the World Bank, with parallel financing expected from JICA.

21. **Public debt remains sustainable despite the deterioration of the short-term outlook.** Public debt is expected to increase in the short term because of the anticipated large primary deficit. After reaching a peak in 2024, total public debt is expected to stabilize at around that level once fiscal support retrenches and growth dividends are generated from the planned reforms. The present value of the public debt-to-GDP ratio remains below the indicative threshold under the baseline scenario, reaching about 35 percent of GDP in 2025. During this period, the increase in the projected debt will be driven mainly by the widening primary deficit and exchange rate movements, which more than offset real GDP growth and other factors. The new financing is expected to consist primarily of borrowing from multilateral and bilateral lenders in the medium term, while private sources are expected to start playing a greater role in the longer term. Moldova is expected to continue benefiting from significant grant financing in the short and medium term. These outcomes hinge on continued prudent fiscal policy, together with sound macroeconomic policy, as envisaged under the IMF ECF/EFF Program. Lower-than-expected growth remains the largest risk to debt sustainability.

Figure 3: Indicators of public debt under alternative scenarios, 2022–2032



Source: Joint IMF-WB Debt Sustainability Analysis 2022.

22. **The macroeconomic policy framework, anchored to the IMF Program, is adequate for the proposed operation despite a deterioration of global and domestic economic conditions**. The impact of Russia's invasion of Ukraine is expected to exert further pressure on Moldova's short-term economic activity,

weakening the country's fiscal position from a decline in revenues due to the lower economic activity, an increase in social spending to mitigate the impact of the shock, and higher-than-expected energy prices. Despite the weakening of the fiscal position in the short term and pressures on cash buffers, public debt remains sustainable and is expected to stabilize in the medium term, when fiscal support retrenches and growth dividends are generated from the planned reforms. The exchange rate continues to be the first line of defense against external shocks, and the NBM has demonstrated a swift response to the increase in inflation and flexibility in terms of management of its exchange rate policy. The financial sector entered the crisis well-capitalized and maintains its profitability levels despite challenging economic conditions that might affect NPLs.

23. **Despite a proactive strategy by the Government in securing energy for this past winter, significant uncertainty remains around the impact of Russia's invasion of Ukraine on the Moldovan economy, and the supply and price of energy in 2023.** A further increase in energy costs in the fourth quarter of 2023 may require spending reallocation and/or additional financing to mitigate the impact on households and potential social discontent. It would also contribute to a deterioration of the external position. Other risks are related to the dispute over the historical commercial debt between Moldovagaz and Gazprom, which has been estimated by Gazprom to be at around US$700 million (5 percent of GDP). This represents a potential contingent liability for the GoM with an impact on financing needs, depending on the repayment schedule that is eventually agreed upon. Further weakening of economic activity and/or tightening of financial conditions could dampen growth prospects and risk reducing the willingness of domestic investors to roll over some of the domestic debt. Financial stability could be challenged in the case of a potential resumption in withdrawals of bank deposits, while the non-banking financial sector continues to be a source of vulnerability. These risks are partially mitigated by the GoM's emphasis on social protection measures and its proactive strategy toward the diversification of energy sources, including through the implementation of reforms supported by the DPO series. These risks are also partially mitigated by Moldova's commitment to full adherence to the IMF Program, which serves as a macro-fiscal anchor. Moreover, a substantial part of the GoM's additional financing needs arising from the impact of Russia's invasion of Ukraine is expected to be met by bilateral donors, the IMF and multilateral development banks. Nevertheless, the residual risk remains high.

2.3. IMF RELATIONS

24. **On December 21, 2021, the IMF Board of Executive Directors approved an economic reform Program under the ECF and the EFF arrangements for an amount equivalent to US$558.3 million (SDR 400 million).** The 40-month Program's objectives are to sustain the post-pandemic recovery, address pressing developmental needs, and strengthen governance and institutional frameworks. Structural reforms supported by the Program aim to address vulnerabilities to improve the rule of law and the anti-corruption framework, and strengthen fiscal and financial governance, ultimately accelerating income convergence between Moldova and its European peers. The first disbursement of about US$79.8 million (SDR 57.2 million) was released with the approval of the Program. The authorities had requested an increase of access under the ECF/EFF program by about US$260.1 million (SDR 194.3 million) to help Moldova cope with the impact of Russia's invasion of Ukraine and surging international energy and food prices. The augmentation request was approved by the IMF Executive Board on May 11, 2022. The IMF Executive Board completed the third review under the ECF/EFF arrangements with Moldova on April 26, 2023, providing the country with access

to about US$94.40 million (SDR 70.95 million), bringing total disbursements under the program to nearly US$369.30 million (about SDR 277.55 million).

3. GOVERNMENT PROGRAM

25. **The Government's medium-term National Development Strategy—Moldova 2020—calls for a shift from the current consumption-based growth model toward a growth model based on investment, productivity and competitiveness, developing export industries, and promoting a knowledge-based society.** An update of the strategy—Moldova 2030—prioritizes the following areas: (i) sustainable and inclusive economic development; (ii) long-term development of human and social capital; (iii) honest and efficient institutions; and (iv) a healthy environment. The 2021–2022 government program identifies five priority areas in the short term: (i) health crisis management; (ii) judiciary and anti-corruption reform; (iii) social protection for vulnerable groups; (iv) job creation and an increase in the average salary; and (v) the resumption of external financing. A universal theme that cuts across all areas is the efficiency and quality of services and the public sector as a whole, together with increased private sector competitiveness and resilience. Faced with this ambitious yet challenging agenda, the GoM has moved quickly in some areas, including an increase in the minimum pension, the creation of a social assistance program for the elderly, and an increase in the monthly allowances for children. At the same time, progress in other areas has been slower due to the subsequent crisis of COVID-19, energy crisis, and Russia's invasion of Ukraine. Particular emphasis is required to reform the justice sector, which is recognized as a gargantuan, long-term and effort-consuming endeavor, which represents one of the basic pillars of European Moldova 2030, with other pillars being peace and security, economic development, modernization of infrastructure and improvement of the quality of life.

26. **The GoM acted promptly to the unprecedented social and economic challenges arising from Russia's invasion of Ukraine**. The GoM declared a State of Emergency and took immediate action to integrate refugees from Ukraine, and to mitigate the potential economic impact on households due to the expected increase in food and gas prices. All these measures were supported by DPO1 and provided an important social safety net for both refugees and households. More recently, the GoM approved the Law on Energy Vulnerability Reduction Fund to mitigate the impact of high energy prices on households. The aim of EVRF is to reduce households' energy vulnerability at times of energy price volatility, ensuring the supply of natural gas, heating energy and electricity to socially vulnerable energy consumers, and increasing energy efficiency. The EVRF regulation determines households' energy vulnerability based on income and energy consumption (capped at last year's average consumption), dividing households into five categories of energy vulnerability, which each receive differentiated compensation depending on their vulnerability and the type of energy source.

27. **The GoM has also taken measures to reduce the country's dependency on a single source of supply for both gas and electricity.** The synchronization of the transmission power systems of Ukraine and Moldova with ENTSO-E,[7] together with the completion of the first cross-border gas pipeline between Moldova and Romania (Iasi-Ungheni-Chișinău pipeline) connecting the Moldovan gas transmission system with ENTSO-G,[8] is helping Moldova to establish direct access to new sources of electricity and gas supply. The recent decision

[7] The European Network of Transmission System Operators for Electricity.
[8] The European Network of Transmission System Operators for Gas.

by Gazprom to reduce the supply of gas is forcing the authorities to accelerate this process of diversification in both gas and electricity.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

28. **The programmatic DPO series aims to help the authorities: (i) increase support to refugees and households; and (ii) build resilience and enhance competitiveness to reduce vulnerabilities to future shocks.** The program development objective of the DPO is fully aligned with the GoM's priorities. At the current economic juncture, it is paramount that measures aimed at mitigating the impact of Russia's invasion of Ukraine and supporting the economic recovery are complemented by long-term reforms. There is an urgent need to build resilience to mitigate the impact of shocks, given Moldova's inherent vulnerability associated with a small landlocked economy, its reliance on food and energy imports, and an increasing frequency of natural disasters exacerbated by climate change. Enhancing private sector competitiveness and economic diversification is expected to help improve the business environment to become more conducive to higher productivity, growth, and job creation. In this context, the DPO complements other international financial institutions' (IFIs) programs and builds on a strong policy dialogue, and analytical and advisory work across the policy areas identified as binding constraints by the recently completed Systematic Country Diagnostic (SCD) Update and consistent with IFC's Country Private Sector Diagnostic (CPSD). For instance, in the energy sector, the World Bank complements the EU MFA and EBRD programs by focusing on renewables and energy efficiency.

29. **The design of this DPO incorporates lessons learned from previous DPOs.** The DPO supports critical reforms but recognizes them as a first step toward a broader reform agenda to address Moldova's multiple development challenges. The experience from previous DPOs highlights the importance of supporting the authorities throughout the reform process due to the limited implementation capacity and high level of political volatility. This was reflected in the design of this Program as a programmatic series of DPOs. The previous experience has also shown that DPOs should be accompanied by a broader program of technical and analytical tools to support the implementation of the wider reform agenda, and better respond to the country's needs and demands. Technical assistance and analytical work have been undertaken recently to provide the analytical underpinnings for this operation, including on pensions and social protection as part of the public finance review, and on energy security with just-in-time technical advice. Complementarity between financial instruments has also been shown to be important in previous experience. This operation complements measures supported by, for instance, the Micro, Small, and Medium Enterprises (MSMEs) Competitiveness (P177895) and the Water Security (P173076) projects.

Table 5: Original triggers of DPO1 and Current Prior Actions of DPO2

Original trigger of DPO1 for DPO2	Prior Action DPO2	Notes:
	Prior Action 1. The Borrower has adopted a framework and an associated implementation action plan to provide a more secure legal status to refugees and better integrate them into Moldovan society by: (i) harmonizing the migration and asylum legal processes with EU	New Prior Action.

	legislation, and (ii) granting of temporary protection to access services including for housing, schooling, social assistance and employment.	
	Prior Action 2. The Borrower has adopted a framework and an associated implementation action plan to strengthen civil protection response and management in emergency situations, including from the influx of refugees.	New Prior Action.
(Indicative) Trigger #1: The Recipient has adopted complementary by-laws to update normative aspects of the Ajutor Social implementation in accordance with the amended law, including the subsistence minimum guaranteed for children and the amount of additional income disregard per child.	Prior Action 3. The Borrower has taken measures to strengthen the main anti-poverty program, by adopting a regulation of the Ajutor Social implementation in accordance with Law No. 108/2022 amending Law No. 133/2008, including the establishment of a separate guaranteed minimum income for children and an increase of the income disregard for earned child allowances.	Original Trigger maintained.
(Indicative) Trigger #2: The Recipient has adopted a regulatory framework for auctions and tenders in renewable energy.	Prior Action 4. The Borrower has taken measures to enhance energy efficiency by: (i) strengthening the legal framework through partially aligning the Energy Efficiency Law with the EU Directive 2018/2002 of the EU Clean Energy Package as adopted by the Energy Community; and (ii) introducing energy efficiency policies for public and residential buildings.	Original trigger replaced. The Regulatory framework for auctions is being supported by EBRD.
(Indicative) Trigger #3: The Recipient has expanded the coverage of the deposit guarantee scheme and established a new collateral registry to strengthen households' financial resilience, reinforcing the secured transaction framework and easing access to finance.	Prior Action 5. The Borrower has taken measures to strengthen the legal framework for deposit guarantee scheme to increase the coverage of banks' deposits and strengthen capacity of the deposit guarantee fund partially aligning with the EU requirements to improve protection of households' deposits.	Original trigger partially maintained. The authorities decided to have the IT systems operational before issuing the regulation of collateral registry.
(Indicative) Trigger #4: The Recipient has adopted a framework to the reform water and sanitation services.	Prior Action 6. The Borrower has taken measures to strengthen the legal framework of the corporate governance of SOEs by (i) mandating the Owners of State Enterprises to approve a corporate governance code, (ii) enabling the appointment of independent members to the Board of Directors of state enterprises, (iii) mandating the Owners of State Enterprises to evaluate the members of the Board of Directors of state enterprises, and (iv) mandating the Owners of Public Interest Entities to establish Audit Committees.	Original trigger replaced. The energy crisis and refugees emergency have delayed the implementation of this complex long-term reform. The authorities remain committed to this agenda.
(Indicative) Trigger #5: The Recipient has adopted complementary by-laws to further support the railway reorganization and harmonize the national legislation with the EU standards.	Prior Action 7. The Borrower has adopted complementary bylaws to further support the railway sector reorganization and harmonize the national legislation with the EU standards by: (i) regulating the organization and operation of the National Railway Authority; and (ii) regulating public service contracts for railway passenger transport services.	Original trigger maintained.
(Indicative) Trigger #6: The Recipient has supported the digitalization of services to MSMEs, by introducing e-commerce, e-notary and Public Depository of Financial Statements.	Prior Action 8. The Borrower has facilitated access to the digitalization of services for business by: (i) introducing remote business; and (ii) approving the framework of Public Depository of Financial Statements.	Original trigger maintained.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

30. **Pillar 1: Increase support to refugees and households:** The GoM acted promptly on the unprecedented social and economic challenges arising from Russia's invasion of Ukraine with emergency measures for refugees from Ukraine and households due to the expected increase in food and gas prices. All these measures were supported by DPO1 and provided an important social safety net for both refugees and households. At the current juncture, there is a need to move from emergency measures to long-term management and integration of refugees from Ukraine. This is important not only from a solidarity standpoint but also for social cohesion in the host communities. Moreover, improving the design of the main social assistance program—Ajutor Social—is also essential for social cohesion given the uncertainties generated from the economic impact of Russia's invasion of Ukraine and energy prices.

Prior Action 1. *The Borrower has adopted a framework and an associated implementation action plan to provide a more secure legal status to refugees and better integrate them into Moldovan society by: (i) harmonizing the migration and asylum legal processes with EU legislation, and (ii) granting of temporary protection to access services including for housing, schooling, social assistance and employment, as evidenced by Government Decision No. 808 dated November 11, 2022, and published in the Official Gazette on January 19, 2023, and by Government Decision No. 21 dated January 18, 2023, and published in the Official Gazette on January 26, 2023.*

31. **Rationale.** More than 106,000 refugees have remained in the country at the beginning of April 2023. About 40 percent of the refugees are mothers who are reported to be traveling with children (about 50 percent of total refugees), while the remaining 10 percent are mostly elderly people or those with disabilities. About 65 percent of refugees are women or girls under 18. The influx of refugees is overwhelming for such a small country: the refugees who have decided to remain represent about 4 percent of the total population; the adults represent 6 percent of the active labor force;[9] and school-age refugees represent about 9 percent of the pupils that regularly attend pre-kindergarten to secondary schools. To facilitate their integration into Moldovan society and increase their self-reliance, thereby reducing the pressure on public finances, the GoM has temporarily granted Ukrainian refugees the right to work in Moldova on an exceptional basis. Facilitating integration is particularly important for women, who face multiple challenges.[10] Moreover, the GoM has also temporarily provided access to schooling, which has helped give a sense of normality to children in a period of upheaval and chaos, and to support their psychological wellbeing and learning, which, in turn, are important for their future productivity and earnings. These measures were supported by the first operation of this DPO series. However, the increasing permanence of the refugees requires the GoM to move from emergency measures to longer-term management of refugees who have decided to remain in Moldova. To this end, it is paramount that the current framework needs to be amended to reflect both the evolution of the migration phenomenon, the new international commitments,[11] and the major challenges and transformations that have taken place in the sphere of migration at the national, regional and global levels.

32. **Substance of the Prior Action.** Government Decision No. 808 transposes the provisions of United Nations conventions on: the status of refugees in matters of international protection and the protection of human rights; the status of stateless persons; and on reducing the cases of statelessness. It is also aligned

[9] In 2021, 843,400 Moldovans were employed and 28,200 were unemployed for active labor force of 871,600.
[10] *https://statistica.gov.md/public/files/publicatii_electronice/Educatia/Educatia_editia_2021.pdf* - Education in Republic of Moldova, 2021.
[11] *New York Declaration on refugees and migration, The Global Compact for Safe, Regulated and Orderly Migration, Global Compact for Refugees*.

with the priorities and objectives of the Global Pact for Safe, Regulated and Orderly Migration, as well as with the objectives of the Global Compact for Refugees. The Government Decision aims at providing a framework for entry, stay and exit to/from the Republic of Moldova, with well-defined rules of admission and documentation procedures, as well as rules for preventing and combating illegal migration. It also aims at strengthening the national asylum system and ensuring adequate reception conditions and European standards for the functioning of the Center for Settlement and Integration of Foreigners, as well as the provision of diversified and improved integration services. Government Decision No. 21 selectively transposes Council Directive 2001/55/EC of July 20, 2001,[12] and Council Implementing Decision (EU) 2022/382 of March 4, 2022.[13] The Government Decision establishes the conditions and categories of persons to whom temporary protection will apply, including refugees[14] from Ukraine from February 24, 2022, or after that date, as a result of the invasion. By applying the temporary protection mechanism, Moldova synchronizes and standardizes the approach to the refugees in Ukraine with the EU, regulating administrative aspects regarding the registration of beneficiaries of temporary protection and the issuance of identity documents, which gives them the right to remain in Moldova for the entire duration of the temporary protection. Specifically, the Government Decision regulates the rights of beneficiaries of temporary protection:[15] (i) provision of minors' access to education, access to appropriate accommodation, and access to social assistance for families with children and unaccompanied minors;[16] (ii) integration of beneficiaries into the labor market, including ensuring access to active employment services and measures offered by the National Employment Agency[17] to beneficiaries of temporary protection during the period of validity of this status;[18] and (iii) access to primary health care, emergency medical assistance and a free medical examination.[19] The temporary protection will be granted for a period of one year from the date of entry, which may be extended by periods of six months, but not exceeding two years, if the reasons for temporary protection continue to persist. A number of Ministerial Orders and Decisions[20] were approved for implementation of provisions of Government Decision No. 21.

33. **Expected results.** The result indicator relates to the number of female refugees that are granted the temporary protection status. The target value of the result indicator might be influenced by the number of

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[12] Minimum standards for granting temporary protection in the event of a mass influx of displaced persons and measures to promote a balance between member states' efforts to receive these persons and bear the consequences.

[13] Establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC and resulting in the introduction of temporary protection, published in the Official Journal of the European Union L 71 of March 4, 2022.

[14] (i) Ukrainian citizens; (ii) third-country nationals who are unable to safely return to their country or region of origin; and (iii) family members of the persons referred to in points (i) and (ii) to maintain the unity of families and avoid granting different types of status to members of the same family. Stateless persons and beneficiaries of international protection who were legally in Ukraine are eligible for temporary protection (as well as family members). Stateless persons who were not legally in Ukraine are eligible for asylum procedures and resident permit in Moldova.

[15] Provisions of articles 21, 22, 25, 26, 39 of the Law No. 270/2008 on Asylum in the Republic of Moldova.

[16] The upcoming *Moldova: Education Quality Improvement Project* (P179363) will complement these measures by improving the learning environment in participating institutions, with an emphasis on support of disadvantaged students, including refugees, and strengthen the capacity of the Ministry of Education and Research for sector management and refugee response.

[17] Agenția Națională pentru Ocuparea Forței de Muncă.

[18] Conditions of access and benefit of active employment services and measures regulated by the Law No. 105/2018 on the promotion of employment and unemployment insurance.

[19] According to the list of medical services established by the Ministry of Health. The following measures were approved: (i) order of the National Medical Insurance Company regarding the list of medical services; (ii) order of the Ministry of Health regarding medical services granted to beneficiaries of temporary protection; (iii) joint order approving the Regulation regarding the registration with the family doctor of the beneficiaries of temporary protection; and (iv) the government decision regarding the establishment of allowances for children beneficiaries of temporary protection is in process to be approved.

[20] Ministerial Orders and Decisions include (i) Order of the National Medical Insurance Company regarding the list of medical services; (ii) Order of the Ministry of Health regarding medical services granted to beneficiaries of temporary protection; (iii) Joint order approving the Regulation regarding the registration with the family doctor of the beneficiaries of temporary protection; and (iv) Government decision regarding the establishment of allowances for children beneficiaries of temporary protection (in approval process).

applicants for temporary protection, as refugees in Moldova have several options to legally remain in the country. Moreover, the socio-economic situation in Ukraine is expected to affect the number of refugees who will remain in Moldova by 2024. Beyond the timeframe for the evaluation of this DPO, these measures are expected to better integrate refugees into the economy and society, helping social cohesion and economic resilience.

Prior Action 2. *The Borrower has adopted a framework and an associated implementation action plan to strengthen civil protection response and management in emergency situations, including from the influx of refugees, as evidenced by Government Decision No. 846 dated December 7, 2022, and published in the Official Gazette on December 12, 2022.*

34. **Rationale.** Moldova's development has also been derailed by frequent economic shocks from natural disasters. Since 2000, Moldova has witnessed, on average, one major climate-related event occurring every three years. In total, Moldova annually experiences more than 5,000 emergency situations of different magnitudes and severity. These natural hazards can have a severe impact on the agriculture sector, with imminent risks to the livelihoods of numerous producers and households, given that average annual losses from hydrometeorological hazards comprise about 3 percent of GDP.[21] They also have a severe impact upon the rural population of Moldova, which accounts for 60 percent of the population and is highly dependent on agriculture. Climate change is expected to exacerbate natural disasters related emergencies, given the steady increase in temperatures and greater variance in rainfall.[22] The arrival of 750,000 refugees from Ukraine, which represented about one-quarter of Moldova's total population, has placed additional strains on the country's civil protection response and management of the emergency systems, both at the national and local levels. While the capital, Chișinău, is the main refugee-hosting area, some smaller cities with very limited capacity are also hosting substantial numbers of refugees relative to their populations.[23] Such a massive influx of refugees has highlighted the lack of a modern and comprehensive framework for civil protection and the management of emergency situations. At present, the regulatory framework, which is largely inspired by legislation from the era of the former Soviet Union, does not respond to the constantly evolving nature of emergencies that are becoming more complex and cover a broader set of challenges.

35. **Substance of the Prior Action.** Government Decision No. 846/2022 aims at providing a framework to guide activities for the prevention of, preparation for, and national response to growing emergency and exceptional situations that Moldova is facing at both the national and local levels. The Government Decision clarifies the respective roles of national and local governments to enable Moldova to better respond not only to emergency and exceptional situations, such as the refugee crisis, but also to other emergencies, including future pandemics or natural disasters. The Government Decision also contains specific measures to strengthen capacity at the national and local levels, including through civil protection training, and support the introduction of improved early warning systems. These training activities, facilities and equipment are envisaged for first responders only (firefighters and rescue teams for civilians). The Government Decision is an important first step in the development of a comprehensive Disaster Risk Management system. The associated action plan will strengthen the competences and roles of the national and local government authorities, and help close regulatory gaps, thus improving the management of emergency situations.

[21] climateknowledgeportal.worldbank.org/
[22] In areas already affected by wildfire hazard, the fire season is likely to increase in duration, and include a greater number of days with weather that could support fire spread because of longer periods without rain during fire seasons. https://thinkhazard.org/
[23] Taraclia, Causeni, Stefan Voda, Criuleni all have more than 1,000 refugees per 100,000 local population.

36. **Expected results.** The result indicator relates to the share of cases resolved by the civil protection framework as a percentage of the requests for assistance from refugees. Beyond the timeframe for the evaluation of this DPO, these measures are expected to strengthen the civil protection system to better respond to future emergencies.

Prior Action 3. *The Borrower has taken measures to strengthen the main anti-poverty program, by adopting a regulation of the Ajutor Social implementation in accordance with Law No. 108/2022 amending Law No. 133/2008, including the establishment of a separate guaranteed minimum income for children and an increase of the income disregard for earned child allowances, as evidenced by Government Decision No. 655 dated September 23, 2022, and published in the Official Gazette on September 29, 2022.*

37. **Rationale.** Strengthening means-tested programs is a priority for Moldova to improve the protection of vulnerable populations through greater efficiency, given the current food and energy crisis, and to enhance resilience against future shocks. The AS program could be an important tool for adaptive social response and was the main instrument of government social support during the COVID-19 outbreak through a significant increase in coverage achieved by a temporary increase in the income threshold. The AS and its add-on program, APRA, has the highest cost-benefit ratio in supporting the poor. However, the coverage of the poor by the AS remains low.[24] Low coverage results from a low-income eligibility threshold (guaranteed minimum income [GMI]). Moreover, for the whole family, the income threshold for members other than the applicant is included with reduced coefficients.[25] Finally, in families that lose eligibility for the AS (for example, by not maintaining so-called occupational status),[26] children were also left without any support. Due to specific challenges linked to the cold season, these measures were complemented by the support of poor and vulnerable families during the heating period. The GoM has taken both short-term measures, to mitigate the immediate impact of the increase in gas prices, and longer-term measures, to strengthen the main social protection programs to mitigate the impact of future shocks.

38. **Substance of the Prior Action.** Government Decision No. 655/2022 adopts complementary bylaws to update normative aspects of the AS implementation in accordance with Law No. 108 of April 4, 2022, which amended Law No. 133/2008. This mitigates the impact of future shocks by further increasing the GMI for children to 60 percent of the subsistence minimum for children and separating it from the GMI for adults. This measure builds on the changes to the AS Law supported by DPO1, which allowed for the establishment of a separate GMI for children in addition to other measures. This change will support families with children that, as a group, has the highest poverty rate of 38 percent, and is, thus, among the most vulnerable to shocks, and was relatively less well-protected from the gas crisis in the winter of 2021. The Government Decision also increases the “income disregard”, which is the level of earned income and child benefits that is not considered to compute the benefits, depending on the number of children in the family. This measure will provide additional support to working poor families, especially families with children and families with young children that face additional challenges in finding and maintaining employment. Income disregard of a share of earned income increases the support to the working poor without risking promoting welfare

[24] According to HBS 2021, about 7 percent of the poor were covered by the AS.

[25] Every additional adult member increases the income threshold for the family by 0.7 GMI, and children were included with a coefficient of 0.75. As a result, the beneficiary families with many children were not able to bring consumption per child to the extreme poverty line, even though all able-bodied adults might be working (administrative data show that during 2022 Ajutor Social had, on average, about 14,000 beneficiary families with children, and only about 6,000 beneficiary families with unemployed members).

[26] According to the regulation, all able-bodied adults should be either studying, working, or actively seeking work.

dependency. Additional income disregard for families receiving children allowances supports consumption by young children. Finally, having a separate GMI for children allows for the provision of support to children even if adults in the family are denied support due to factors such as not seeking employment.

39. **Expected results.** The result indicator relates to the number of female-headed families receiving social assistance. Refugees with temporary protection status (PA1) can now access social assistance subject to the same requirements as Moldovan citizens. Beyond the timeframe for the evaluation of this DPO, the reform expects to put in place a social protection system capable of mitigating unforeseen shocks without the need for ad-hoc social protection measures.

40. **Pillar 2: Build resilience and enhance competitiveness to reduce vulnerability to future shocks.** There is an urgent need to build resilience, given Moldova's inherent vulnerability associated with a small landlocked economy, its reliance on food and energy imports, and an increasing frequency of natural disasters exacerbated by climate change. In this context, enhancing energy efficiency is an essential component to reduce the energy gap and build energy resilience, in addition to the diversification of energy sources supported in DPO1. Strengthening households' financial resilience by protecting savings in bank deposits is essential during a period of heightened uncertainties. Similarly, strengthening SOE corporate governance is key to improving the efficiency of SOEs' service delivery, building fiscal buffers and resilience, and ultimately reducing contingent liabilities. It is also important to ensure that the railway sector plays an increasing role in successfully integrating firms, consumers, inputs, and goods in a more sustainable and safer manner. Also strategically important is the digitalization of public services throughout the lifecycle of firms to enhance competitiveness and improve access to finance.

***Prior Action 4**. The Borrower has taken measures to enhance energy efficiency by: (i) strengthening the legal framework through partially aligning the Energy Efficiency Law with the EU Directive 2018/2002 of the EU Clean Energy Package as adopted by the Energy Community, as evidenced by Government Decision No.43, dated February 1, 2023, published in the Official Gazette on February 2, 2023 and its submission to the Borrower's Parliament as Legislative Initiative No. 16 dated February 2, 2023; and (ii) introducing energy efficiency policies for public and residential buildings, as evidenced by Law No.187 dated July 14, 2022, and published in the Official Gazette on July 29, 2022, and Government Decision No. 536 dated July 22, 2022, and published in the Official Gazette on July 26, 2022.*

41. **Rationale.** Moldova is one the most vulnerable countries in Europe in terms of energy security, with the highest energy import dependency and one of the lowest per-capita incomes in Europe. Almost 60 percent of the total final energy consumption is in buildings, with four-fifths in residential buildings and one-fifth in commerce and public institutions. The unprecedented increase in energy prices in Moldova, which accelerated following Russia's invasion of Ukraine, and associated uncertainties related to the supply of gas and electricity, make energy efficiency a key priority. A wider implementation of energy efficiency measures in residential and public sectors is, therefore, key to preventing and mitigating the impact in the case of gas supply limitations.[27] Energy efficiency is also: (i) one of the key priorities defined in the EU-Republic of Moldova Association Agenda for 2021–2027; (ii) the Decarbonization Roadmap of the Energy Community,

[27] Action Plan to prevent and mitigate the impact of the energy crisis in case of gas supply limitation and to prepare for the heating season 2022–2023, Government Decision No. 606/2022, Annex 2, Tables 8 and 9; Single Programme Document for the years 2022–2024, Annex 2, Measure 2.1, Government Decision No. 536/2022 amending Government Decision No. 23/2022.

with an immediate focus on the Energy Efficiency Directive and the harmonization of national legislation with this Directive; and (iii) the National Development Plan for the period 2023–2025.[28]

42. **Substance of the Prior Action.** The supported reforms consist in adopting and implementing a legal and regulatory framework to boost the implementation of energy efficiency measures in residential and public buildings. Government Decision No. 43 and Legislative Initiative No. 16 (the Energy Efficiency Law) align Moldova's legislative framework on energy efficiency with the Energy Community acquis and provide the legal grounds for the adoption and implementation of the 1st National Energy and Climate Plan, which is currently under development. This would unlock the path to further efforts in developing the market for energy services and reducing barriers that hinder increased efficiency in energy supply and use. Law No. 187/2022 aims to boost the implementation of energy efficiency measures in residential buildings (condominiums) by: setting clear rules for the implementation of energy efficiency measures within a condominium; and introducing an obligation for each condominium to establish the Repair and Development Fund envisaged to be used for inventories, technical inspections, energy audits and conducting thermal rehabilitation and energy efficiency projects.[29] Government Decision No. 536/2022 defines the list of priority renovation/rehabilitation projects, including interventions to improve energy efficiency (increase energy performance) in public buildings, to be financed through the National Regional and Local Development Fund,[30] whose establishment in 2022 was supported by DPO1.

43. **Expected results.** The result indicators relate to the amount of renewable energy capacity auctioned by the Government to the private sector and the number of public and residential buildings that have undertaken a full energy efficiency renovation/rehabilitation. Beyond the timeframe for the evaluation of this DPO, the reform is expected to strengthen resilience, reduce dependency on energy imports, and improve affordability.

Prior Action 5. *The Borrower has taken measures to strengthen the legal framework for deposit guarantee scheme to increase the coverage of banks' deposits and strengthen capacity of the deposit guarantee fund partially aligning with the EU requirements to improve protection of households' deposits, as evidenced by Government Decision No. 142, dated March 22, 2023 and published in the Official Gazette on March 24, 2023, and its submission to the Borrower's Parliament as Legislative Initiative No. 74 dated March 23, 2023.*

44. **Rationale.** The deposit guarantee system's current coverage level of bank deposits is MDL 50,000 per depositor,[31] which is low relative to Moldova's GDP per capita and insufficient to fulfill its mandate of enhancing banking confidence and preventing the risk of bank runs in case of a bank failure, as well as contributing to financial sector stability.[32] In addition, the Deposit Guarantee Fund for the Banking System (FGDSB) has inadequate governance and institutional capacity, and faces operational challenges in handling

[28] Council Decision (EU) 2022/967 of 13.06.2022; General Policy Guidelines 01/2021/MC-EnC of 30.11.2021; Decision of the Ministerial Council of the Energy Community D/2021/14/MC-EnC of 30.11.2021; Draft National Development Plan for the period 2023–2025 as of November 29, 2022.
[29] Law No. 187 of 14.07.2022 on condominiums, art. 70-73, 53 (1), 55 (2) b)–f), 65 (1), 103 (3), 104 (1) e)
[30] GD No. 536/2022 amending GD No. 23/2022, annex 2, Measure 2.1.
[31] At this coverage level, the deposits of 95.3 percent of eligible depositors (as of September 2022) are fully guaranteed and 20.4 percent of the total value of bank deposits are guaranteed. By comparison, a coverage of MDL 100,000 would fully guarantee the deposits of 97 percent of eligible depositors in full and 29.9 percent of the total value of bank deposits, while a coverage of MDL 200,000 would guarantee the deposits of 98.4 percent of eligible depositors in full and 41 percent of all eligible deposits in the banking system.
[32] As of 2019, in Eastern Europe (excluding the Russian Federation and the countries that are part of the European Union), coverage ranged from 5 to 18 times of GDP per-capita, while in Moldova this figure was about 1.25 times.

even small-scale payouts.[33] As an EU candidate country, Moldova also needs to align its legislation on deposit guarantees with the EU framework, based on the Deposit Guarantee Scheme Directive (DGSD). This requires the GoM's commitment to increase the coverage of the guarantee for households' deposits (which in EU member states is EUR 100,000). It will also require the FGDSB to take on a more prominent role in bank resolution and enhance its governance, capacity and public awareness.

45. **Substance of the Prior Action.** Legislative Initiative No. 74 aligns the Moldovan deposit guarantee system to the EU DGSD by: (i) gradually increasing coverage for banking sector deposits from MDL 50,000 to MDL 200,000; (ii) strengthening governance, payout capacity, public awareness engagements and financial management of the FGDSB; and (iii) introducing stress testing requirements for the deposit guarantee fund and its operating capacity. The implementation of a new legal framework that is in line with international best practice would provide an adequate level and scope of coverage and adequacy of funding, enhance the premium collection methodology, dramatically shorten the time needed for depositor reimbursements, and help the FGDSB to engage in public awareness activities and cross-border cooperation.

46. **Expected results.** The result indicators relate to the share of insurance companies complying with the new requirements for assets eligible to cover minimum capital requirements and technical reserves and the volume of covered deposits as a percentage of eligible deposits. Beyond the timeframe for the evaluation of this DPO, these measures are expected to increase the coverage level for bank deposits and the capacity for the FGDSB to deliver on its extended mandate of safeguarding deposits. The longer-term outcome is increased confidence of depositors in the banking system.

Prior Action 6. *The Borrower has taken measures to strengthen the legal framework of the corporate governance of SOEs by (i) mandating the Owners of State Enterprises to approve a corporate governance code, (ii) enabling the appointment of independent members to the Board of Directors of state enterprises, (iii) mandating the Owners of State Enterprises to evaluate the members of the Board of Directors of state enterprises, and (iv) mandating the Owners of Public Interest Entities to establish Audit Committees as evidenced by Government Decision No. 75, dated February 22, 2023, and published in the Official Gazette on February 23, 2023, and its submission to the Borrower's Parliament as Legislative Initiative No. 31, dated February 22, 2023.*

47. **Rationale.** Moldova's SOEs account for a significant share of the economy in terms of assets, turnover, and employment, with the largest SOEs having dominant positions in energy, communications, transport and social services. Over the past few years, the GoM has undertaken a series of reforms aimed at restructuring the SOE sector, creating a centralized ownership agency—the Public Property Agency (PPA)—to enhance accountability and transparency by adopting some important legislative changes. The Law on State Enterprises and Municipal Enterprises approved on December 22, 2017, introduced basic governance principles for SOEs. The Law also introduced new responsibilities for SOE boards, performance indicators for SOEs, reporting arrangements, and mandatory audits, among other requirements. In the summer of 2021, the GoM expressed its strong commitment to advance SOE reforms through the Program called Moldova of Good Times. However, the SOE sector is still perceived by society as having weak management practices, corruptive elements, vested interests, and a lack of transparency and inefficiency. SOEs also suffer from weak

[33] FGDSB has limited history of payouts, having made payouts of only MDL 50.2 million since 2011, which were carried out by agent banks and took a significant time to start, denting depositor confidence. In addition, FGDSB does not have a management information system in place and all functions related to the depositor payouts are conducted manually.

governance, oversight, and capacity. The boards of SOEs are characterized by heavy government representation and the inefficiency of supervisory boards, heightening the vulnerabilities to corruption and the inefficient management of state assets. Moreover, the sector has non-commercial mandates and relies on extensive government support that poses fiscal risks and undermines competition, productivity, and private investment.

48. **Substance of the Prior Action.** Government Decision No. 75 and Legislative Initiative No. 31 aim to provide the authority to the PPA to issue and enforce a corporate governance code, which will set the principles of ownership functions in SOEs, the professionalization of the state-ownership function, and the corporate governance arrangements of SOEs, aligning the legislation with the OECD Guidelines on Corporate Governance of SOEs. The legislative amendment will also set out basic qualification and experience requirements for the SOEs' executive and supervisory board members, procedures for their selection and appointment, and criteria for evaluating the effectiveness of the board members. This Prior Action builds upon the previous DPO series, which supported enhancing the transparency and oversight of SOEs, as well as the reliability of their financial information. This Prior Action does not require, prescribe, or recommend labor rightsizing in the sector.

49. **Expected results.** The result indicator relates to the number of SOEs that adopt the Corporate Governance Code. Beyond the timeframe for the evaluation of this DPO, these measures are expected to create greater transparency for stakeholders and the public at large, and accountability and incentives for managers to increase efficiencies, reduce costs, improve service delivery, and provide better outcomes for the economy in terms of resource allocation and productivity.

Prior Action 7. *The Borrower has adopted complementary bylaws to further support the railway sector reorganization and harmonize the national legislation with the EU standards by: (i) regulating the organization and operation of the National Railway Authority; and (ii) regulating public service contracts for railway passenger transport services, as evidenced by Government Decision No. 759 dated November 2, 2022, and published in the Official Gazette on November 11, 2022; and Government Decision No. 47 dated February 1, 2023, published in the Official Gazette on February 14, 2023.*

50. **Rationale.** In a landlocked country with a small domestic market, such as Moldova, an efficient railway sector can play a key role in successfully integrating firms, consumers, inputs, and goods both within the country,[34] and also with regional and global markets, in a more sustainable manner. Moldova's railways are playing a critical role in freight transport in and out of Ukraine, stemming from its inherent compatibility with Ukrainian rolling-stock. Being part of the EU Solidarity Lanes concept, Moldova's Ocnița-Ungheni-Chișinău-Basarabeasca-Giurgiulești railway corridor is fully interoperable with Ukrainian rolling-stock (i.e., no break of gauge or major regulatory hurdles) and four Danube River ports (Reni, Ismail, Galati, and Giurgiulești) are directly connected with dual/broad gauge railway lines. Moldova's railway is, therefore, a highly compatible option for moving grain, fuel, and other freight between Ukraine and ports that reach international destinations. However, decades of neglected investment and maintenance, poor governance, and the misallocation of resources[35] that favored other transport modes have resulted in railway transport

[34] The rapid urbanization (from 38 percent in 2014 to 57 percent in 2020) has increased the pressure to deliver efficient, adequate, and affordable transport for daily commute.
[35] During 2007–2016, the GoM spent more than EUR 1 billion on the maintenance and rehabilitation of its road network, while railway infrastructure rehabilitation received less than EUR 150 million.

that has become increasingly uncompetitive compared with road transport and other European railways. The rail freight market share before Russia's invasion of Ukraine was only 15 percent, down from 63.8 percent in 2007, while the passenger rail market share decreased from 13 percent in 2007 to less than 1 percent in 2021. Increasing institutional, operational, and investment efficiency of the railway transport system and the Railway Company of Moldova (Calea Ferată din Moldova, CFM) is key to reversing these trends and supporting the competitiveness of the economy,[36] while providing a reliable and safe mode of transportation for passengers. A new Railway Transport Code was adopted in 2021, which partially transposed the provisions of the EU Railway Directives, to support the reorganization of the railway sector.

51. **Substance of the Prior Action.** Government Decision No. 759 (National Authority for Railways) establishes: (i) the railway authority with competence on safety standards and targets; acceptance of safety management systems; safety supervision, inspections; and fines and suspension of operation rights; (ii) licensing rules for railway operators, and for economic regulation; and (iii) investigation of accidents and incidents on the railways. Government Decision No. 47 adopts a framework for Public Service Contracts (PSCs) used by EU countries to transfer public funds to railway company(ies) to regulate the conditions for the provision of public services for passenger transport services, including those services that are not commercially viable but nonetheless necessary for social reasons. It also provides a framework for awarding PSCs, railway rolling stock used in transport services, maintenance and investment, control of compliance with contract clauses, and how to calculate compensation and to report on public service obligations. This Prior Action does not require, prescribe, or recommend labor rightsizing in the sector.

52. **Expected results.** The result indicator relates to the signed Multi-Annual Infrastructure and Public Service Obligation contracts. Beyond the timeframe for the evaluation of this DPO, the reform expects to create a competitive railway sector that provides quality services for freight and passengers in a fiscally sustainable manner, gradually shifting the mix of transport both for passengers and freight away from road transport.

Prior Action 8*. The Borrower has facilitated access to the digitalization of services for business by: (i) introducing remote business; and (ii) approving the framework of Public Depository of Financial Statements as evidenced by Government Decision No. 141, dated March 22, 2023 and published in the Official Gazette on March 24, 2023, and its submission to the Borrower's Parliament as Legislative Initiative No. 73 dated March 23, 2023, amending Laws No. 186/2008; 81/2004; 200/2010; 242/2010; 1585/1998; and Government Decision No. 590, dated August 10, 2022, and published in the Official Gazette on September 23, 2022.*

53. **Rationale.** As witnessed during the COVID-19 pandemic, the digitalization of services can provide continuity of service delivery and easy access to services, regardless of the location of the beneficiary. It can also substantially reduce the burden for businesses when interacting with the public administration. The inability to conclude business remotely was constraining the possibility of opening businesses and conducting business by migrants, the diaspora, and people who spent a considerable amount of time abroad. This is particularly important for potential investors from Ukraine who have difficulties to travel for business purposes due to Russia's invasion of Ukraine. In addition, financial intermediation—already low before the

[36] Many market participants could benefit from an efficient railway sector: (i) exportes, who need to be reliable suppliers; (ii) importers, who need to limit their inventories without compromising the ability to fulfill orders; (iii) producers/processors, who need to maintain a lean operation by synchronizing the arrival of inputs with their processing schedule; and (iv) shippers of transit cargo, who need to coordinate transport services in multiple countries.

pandemic—has become even more constrained due to regulatory barriers, including the lack of a Public Depository of Financial Statements, which prevent the development of more innovative financial services that would have allowed more access to finance. Businesses have reported the need to improve the transparency of the private sector in Moldova in line with best practices, by ensuring access to company information in a public manner. The lack of company information from official sources makes it difficult to search for new commercial or investment partners, access finance, establish reliable trade connections, or pursue additional business development both in the internal market and cross-border. The 2019 Accounting Law provides for the existence of a Public Depository of Financial Statements, though this has not yet been established.

54. **Substance of the Prior Action.** The package of Legislative Amendments No. 73 on facilitating contactless business regulates the remote operation of a business (contactless business) and allows the use of electronic tools and methods by foreign citizens and diaspora, including potential Ukrainian investors who have difficulties traveling for business purposes, to obtain an electronic identity to interact with public authorities without the need to collect/submit documents or their physical presence in Moldova. Government Decision No. 590 provides open public access to mandatory financial statements of all types of entities registered in Moldova, in line with the EU best practices. Authorities are expected to develop the Depository IT system, with assistance from IFC Investment Climate Reform Project, and to provide the required government IT infrastructure and data sources necessary for the proper implementation of the Depository, in line with the approved framework.

55. **Expected results.** The result indicator relates to the share of new active Government-to-Business (G2B) digital services envisaged by the reform. Beyond the timeframe for the evaluation of this DPO, the reform expects that the interactions between the public and private sectors will become increasingly digital and user-friendly. Streamlined personal data protection legislation will reduce the administrative burden for MSMEs and enable the digitalization of financial and other services.

Table 6: DPF Prior Actions and Analytical Underpinnings

Prior Actions	**Analytical Underpinnings**
Operation Pillar 1	
Prior Action #1 Prior Action #2	Forcibly Displaced – Toward a Development Approach Supporting Refugees, the Internally Displaced and their Hosts (2017); A Development Approach to Conflict-Induced Internal Displacement (2021). Key findings of the reports are the need to focus on refugees' vulnerabilities such as loss of assets and lack of legal rights and opportunities when designing supporting policies to help the displaced people rebuild their lives with dignity. It is important to examine how to help host communities that need to manage the sudden arrival of large numbers of displaced people, under pressure to expand services, create jobs and address long-standing development issues.
Prior Action #3	2021 SCD Update; 2021 Policy Notes; 2022 Public Finance Review; Strengthening Social Assistance in Moldova (P172598); Supporting Social Protection in Eastern Europe (P177564) TA and just-in-time policy notes to Ministry of Social Protection. Key findings of the reports are the need to expand social protection programs to mitigate high levels of income volatility due to the increased frequency and magnitude of shocks particularly from natural disasters exacerbated by climate change. The reports also found the need to better target social protection program particularly by

	strengthening the support to families with children.
Operation Pillar 2	
Prior Action #4	2021 SCD Update; 2021 Policy Notes; Moldova Power System Development Project (P160829). Key findings of the reports are the need to both increase the production of renewable energy and implement energy efficiency programs to reduce the country's vulnerability from high dependency of energy imports.
Prior Action #5	2021 SCD Update; 2021 Policy Notes; Moldova Financial and Private Sector Monitoring/Technical Assistance - (P170841); TA and just in time policy notes to NCBM, NBM, MoJ, on deposit Insurance Civil Code and secured transaction provisions. Key findings of the reports are the need to strengthen deposit guarantee scheme by aligning the legal framework to the EU legislation.
Prior Action #6	2021 SCD Update; 2021 Policy Notes; Moldova SOE diagnostic World Bank with support of UK Good Governance Fund; Moldova DPO 2018. Key findings of the reports are the need to strengthen corporate governance of SOEs by aligning it to the OECD principles of SOEs corporate governance.
Prior Action #7	2021 SCD Update; 2021 Policy Notes; 2020. Tracks from the Past, Connectivity for the Future: Revitalizing Moldova's Railway Sector. Key findings of the reports are the need to reorganize the railway sector by aligning the legal framework to the EU legislation to help increase institutional, operational, and investment efficiency
Prior Action #8	2021 SCD Update; 2021 Policy Notes; IFC Investment Climate Reform Project. Key findings of the reports are that the digitalization of public services for businesses is key to reduce the administrative burden for firms, particularly MSMEs, by facilitating access to and improving the quality, efficiency and transparency of public services.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

56. **The proposed operation is aligned with the priorities of the FY23–FY27 Country Partnership Framework (CPF)[37], as part of the WBG's broader effort to support the authorities in their response to the immediate impact of the combined energy and refugee crises, and efforts to build resilience against future shocks.** The operation is also aligned with the WBG's Global Crisis Response Framework (GCRF), in particular its Pillar 2 on "Protecting people and preserving jobs" (Prior Actions 1 to 3), Pillar 3 on "Strengthening resilience" (Prior Actions 4 and 5), and Pillar 4 on "Strengthening policies, institutions and investments for rebuilding better" (Prior Actions 6 to 8). The DPO series 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 Micro, Small, and Medium Enterprises (MSMEs) Competitiveness (P177895) project under implementation and the pipeline Energy Efficiency (P179280) project and the Education Quality Improvement (P179363) project.

57. **The design of the operation reflects the lessons learned in the implementation of previous operations, as also reflected in the CPF Completion and Learning Review (CLR)**. The CLR suggests that politically difficult structural reforms and immediate needs triggered by crises should be supported mainly through DPOs, Results-Based Financing (RBF) and/or Advisory Services and Analytics, reducing the risk of delayed investment projects. It further notes that coordination among development partners providing

[37] Report No. 177939-MD; discussed by the Board of Executive Directors on March 14, 2023.

budget support is essential for effective leverage over key policy issues and immediate response. This DPO complements the ongoing and planned World Bank-funded Investment Project Financing (IPF) and advisory services, as well as reforms supported by ongoing budget support provided by other development partners, including the IMF.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

58. **The GoM has undertaken extensive consultations on the main measures supported by this DPO with stakeholders**. The approval of laws has followed the regular consultation process with stakeholders prior to entering into parliamentary debate. For instance, the Law on Energy Efficiency (Prior Action 4) was launched with the Regulatory Impact Assessment by the working group of the State Commission for the regulation of entrepreneurial activity in September 2022. Two rounds of consultation of the draft Law were conducted in December 2022 and January 2023. Anticorruption expertise from the Anticorruption Center and legal expertise from the Ministry of Justice were provided before approving the draft Law by Government Decision and submitted to Parliament. Similarly, the consultation process for the draft Law on the Deposit Guarantee Scheme (Prior Action 5), the package of amendments to laws on SOEs (Prior Action 6), and the package of amendments to laws for contactless business (Prior Action 8), also followed the same requirements in line with the Law on Transparency in Decision-Making, with the documents being published on the Portal for Public Consultations (particip.gov.md) and the webpage of the State Chancellery (cancelaria.gov.md) for public access and comments. The Government Decisions and regulations received comments and opinions from international partners in the process of adoption of the legislative drafts and have been posted on the relevant Ministry's website to seek comments from stakeholders. For instance, Government Decisions on refugees (Prior Action 1) were publicly consulted with civil society, international organizations, and development partners, including UNHCR, the International Organization for Migration, the United Nations Development Program, UN Women for Gender Equality and Women's Empowerment in the Republic of Moldova, International Committee of the Red Cross, Alliance of NGOs active in the field of Child and Family Social Protection, Policy and Reform Centre, and Law Centre. Comments were also received on the governmental platform "particip.gov.md." Wide-ranging consultations were also conducted for the Government Decision on Ajutor Social (Prior Action 3) and training sessions were provided to the regional social assistance departments and social workers. Similarly, consultations were conducted for the Government Decision on Railways (Prior Action 7). Given their cross-cutting nature, Government Decisions on Refugees and on Civil Protection (Prior Actions 1 and 2) benefited from inter-ministerial working groups before undergoing through public consultations.

59. **This DPO series has been prepared in close coordination with the IMF, the EU, and other development partners.** The IMF Program, approved in December 2021, focuses on strengthening the rule of law, the anti-corruption framework, and fiscal and financial governance. The EU MFA is expected to focus on the energy sector and public financial management (PFM), particularly the implementation of the Public Expenditure and Financial Accountability (PEFA) assessment recommendations. The DPO also complements other development partners' support. For instance, in the energy sector, the DPO focuses exclusively on energy efficiency, while the EU MFA focuses on energy security. The operation also relates to some areas that are identified by the IFC's CPSD as constraints to the private sector. IFC provided advice on the benefits to the private sector stemming from the proposed policies on digitalization and financial sector.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

60. **The policy measures supported by the DPO are expected to have positive or neutral social and distributional effects.** The reforms under Pillar 1 aim to strengthen temporary protection to provide Ukrainian refugees with employment opportunities and essential services, and to enhance social protection to better protect families with children. These measures are expected to have mostly positive distributional impacts. Measures supported by PA1 to move from emergency measures to longer-term support are expected to benefit refugees fleeing Ukraine. The strengthening of the civil protection management response is expected to have immediate positive impacts on the Ukrainian refugees and could protect more vulnerable Moldovans in the event of future crises (PA2). The modification of the formulas for determining beneficiary qualification and benefit amounts under Ajutor Social (PA3) is expected to increase the proportion of families with children benefiting from social assistance and increase the benefit amounts to these families. This is expected to have positive poverty impacts and distributional impacts, as families with two or more children generally have among the highest poverty rates, recording a poverty rate of 27.3 percent in 2021, higher than the overall poverty rate of 24.5 percent. The SOE reforms under Pillar 2 aim to strengthen governance, which could indirectly have positive impacts on jobs and household incomes over the medium term. These measures are not expected to have immediate negative distributional and social impacts. The impacts of PA4 geared at strengthening energy efficiency frameworks and programs will largely depend on the specific design of the program. The increase in the maximum covered funds in the deposit guarantee scheme (PA5) is expected to have positive poverty and distributional impacts by strengthening the resilience of households' finances. Reform to strengthen SOE corporate governance (PA6) and the ability to conduct business remotely through the digitalization of business services (PA8) are expected to have neutral distributional effects. The stipulation of continued provision of socially desirable railway routes under (PA7) is expected to have positive poverty and distributional impacts. The prior actions of SOE corporate governance (PA6) and on the railway sector (PA7) do not imply any labor reorganization or rightsizing. Details are in Annex 4.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

61. **The proposed Prior Actions are expected to be mostly either neutral or beneficial for the environment.** However, some Prior Actions could be associated with potential negative, but manageable effects. PA4 on enhancing energy efficiency is an essential component to reduce the energy gap in addition to the diversification of energy sources supported in DPO1 and will contribute to further reducing greenhouse gas (GHG) emissions and fulfilling Moldova's obligations under the Paris Agreement. However, energy efficiency interventions may entail an environmental impact related to waste (asbestos containing material, fluorescent lamps, and scrap materials). In this context, any entity responsible for the implementation of the energy efficiency projects, including dedicated Project Implementation Units, have an obligation to ensure full compliance of the waste disposal with provisions of the Waste Law No. 209 of July 29, 2016, Chapters III, VI and VII, including for hazardous materials (article 59, 58(4) and 61, Chapter VII of the Law). PA7 on 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 road transport, which will also reduce air pollution. However, potential future investments as a result of the reforms supported by this

DPO could entail negative environmental impacts that could be managed through Moldova's existing Environmental Impact Assessment legislation, which requires mandatory Environmental Clearance for the expansion or modernization of any development activities. PA8 on digitalization of services for business lifecycle will ensure online registration for new businesses, reducing the number of visits to the State Register and, as a result, reducing pollution generated by car transport. Digitization may, however, entail the potential generation of electronic waste, which could be managed under Moldova's Regulation on Waste from Electric and Electronic Equipment No. 212, of March 7, 2018. The expected individual impacts of Prior Actions under the specific pillars are described in Annex 4.

62. **Moldova's legal and administrative framework related to conducting Environmental and Social Assessments (ESAs), which is a mandatory requirement for all investments in the country, is well developed and in overall compliance with international best practice, together with the World Bank's new Environmental and Social Framework and its standards.** In addition, prior experience in implementing the World Bank investments shows that these requirements have been successfully implemented. To further strengthen the country's capacities in this regard, the recently (2022) approved World Bank Moldova Water Security and Sanitation Project (P173076), which will be implemented under the auspices of the Ministry of Infrastructure and Regional Development and Regional Development Agencies by the Moldova Social Investment Fund, will continue supporting institutional and human capacity building in conducting ESA activities.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

63. **Fiduciary risk for the DPO is assessed as moderate.** This rating appreciates the consistent achievement of high PEFA ratings and also considers the overall robustness of financial management arrangements at the NBM.

64. **Moldova has in place fundamental systems for aggregate fiscal discipline, a relatively strong framework to enable strategic allocation of resources, and efficient use of resources for service delivery.** There has been a significant achievement in realizing a comprehensive medium-term expenditure framework. Moldova has a broad array of information regarding the finances of the budget of the central government. The annual general public budget and its in-year amendments are published on the website of the Ministry of Finance. Parliamentary oversight of the external public audits produced by the Court of Accounts has been enhanced by creating a new dedicated Public Finance Control Commission. As a result, the PEFA assessment for Moldova (2022) concludes that PFM arrangements and systems have improved since the previous PEFA assessment undertaken in 2015, as evidenced by overall strong scores in ratings of budget comprehensiveness, the transparency of public finances, policy-based fiscal strategy and external audit. Areas remaining for improvement were identified as: (i) the lack of a comprehensive and systematic risk-based approach for administering revenues and an accumulated stock of revenue arrears older than 12 months; (ii) deficiencies in the reporting of risks associated with public corporations, since they are not routinely audited; (iii) weaknesses in the effectiveness of internal audit; and (iv) the lack of a comprehensive and inclusive process in managing the public investment program, with no systematic monitoring of projects during implementation. There are ongoing reforms supported by various development partners (IMF, UNDP, the EU, and others) in several of these areas, including reforms in tax and customs administration, budget planning and execution, and capital investments.

65. **Public procurement is governed by the Public Procurement Law (Law No. 131/2015), as subsequently amended, which brings Moldova's legal framework closer to EU standards and is based on international best practice.** The Law defines several procedures and related methods that may be used in public procurement. All methods, except for the negotiated procedures, have the potential to ensure competitiveness, fairness, transparency, proportionality, and integrity. Contracting authorities are free to use open and restricted tenders without any limitations, while other procedures can be used only if specific conditions are met. However, while the Law gives wide opportunities to select procurement procedures and award criteria appropriate to the individual case, the existing e-procurement system is limited in functionalities and does not allow the majority of these methods to be applied. It can currently be used for just two out of eight methods defined in the Law. At the same time, the system cannot generate all suitable data for monitoring public procurement and it does not cover the entire procurement cycle, from planning to contract management. Data on small-value contracts are largely missing and many available documents are not machine readable. The corresponding secondary legislation is partly outdated and contradictory. A Law on Procurement by Utilities has been adopted by Parliament and published on June 26, 2020, entering into force in June 2021 (12 months after the date of publication).

66. **The updated IMF Safeguards Assessment of the NBM was completed in 2021, covering the NBM's governance and control framework.** The NBM's safeguards framework remains robust, its governance structure with strong independent oversight is broadly appropriate, and the central bank is actively developing its operational risk management function. The key safeguards vulnerability relates to the NBM being exposed to political attempts to dent its autonomy. Consequently, amendments to the NBM Law are needed to mitigate such risk and safeguard its governance arrangements. This is supported by the ongoing IMF Program. The most recent audit opinion on the financial statements of the NBM for the year ended December 31, 2021,[38] and those of the preceding year were unmodified. Because the audits of the NBM do not indicate any weaknesses and the overall PFM system together with the GoM's commitment and plans for reform are adequate to support this operation, the audit of the dedicated account is not required for the operation.

67. **The World Bank standard disbursement procedures for DPOs will apply to this operation.** Following the approval of the loan and notification by the World Bank of loan effectiveness, the Government will submit a withdrawal application. The proceeds of the loan will be deposited by the World Bank in a foreign currency account at the NBM designated by the borrower and acceptable to the World Bank. The Borrower should ensure that the equivalent amount is credited in the Treasury current account at the NBM and used for financing budgeted expenditures. Within seven days of remittance of funds by the World Bank, the GoM will provide a confirmation to the World Bank that the funds have been received by the account in the NBM. The GoM will maintain accounts and records showing that loan disbursements were made in accordance with provisions of the Loan Agreement. If the proceeds of the loan are used for ineligible purposes (for example, to finance goods or services on the World Bank's standard negative list), the World Bank will require the GoM to promptly, upon notice from the World Bank, refund an amount equal to the ineligible expenditure to the World Bank. Amounts refunded to the World Bank upon such request shall be cancelled. This condition will be reflected in the terms of the Loan Agreement.

[38] Audit opinions by an independent auditor were rendered on the 2021 annual consolidated financial statements of the NBM. The opinion included the balance sheet as on December 31, 2021, the statement of comprehensive results, statements of capital and reserves, and statement of cash flows for the year that ended, notes to the financial statements, including a summary of significant accounting policies.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

68. **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 Ministry of Finance will be responsible, in close coordination with the NBM, and other line ministries, for the supervision of monitoring the progress in the policy areas supported by the operation. The World Bank will be monitoring the implementation of the program through the regular supervision missions. The results indicators selected to monitor and evaluate implementation progress and 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 purposes of monitoring of this operation, some indicators are already being collected and monitored by associated institution. The results matrix for the proposed operation can be found below in Annex 1.

69. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project-affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

6. SUMMARY OF RISKS AND MITIGATION

70. **The overall risk rating for the proposed operation is assessed as high.** The risk ratings are included in Table 7. Triggered by Russia's invasion of Ukraine, the global economic landscape has deteriorated drastically, particularly in terms of global energy prices, inflation, and low growth in Moldova's main trade partners.

71. **Political and Governance.** Social pressure emerging from the impact of high food and fuel prices, combined with the strong polarization of the electorate, could undermine support for the GoM's agenda, despite the GoM maintaining its strong commitment to the Program. These substantial political and governance risks are partially mitigated by reforms supported under the DPO series, in particular the social protection measures, and the GoM's commitment to protect the most vulnerable.

72. **Macroeconomic.** High macroeconomic risks stem mainly from the dependency of the economy on imports of energy and associated challenges regarding fiscal sustainability. These risks are partially mitigated by Moldova's proactive strategy toward the diversification of energy sources, including through reforms supported by this DPO series. Fiscal risks associated with the increase in energy prices are also mitigated by

a strong support from development partners, as well as by Moldova's macroeconomic policies and commitment to full adherence to the fiscal and monetary targets of the IMF Program. Further weakening of economic activity and/or a tightening of financial conditions could dampen the growth prospects and impact the willingness of domestic investors to roll over debt. These risks are partially mitigated by the fact that most of the GoM's financing is expected to be provided by bilateral donors, the IMF and multilateral development banks. Nevertheless, the residual risk remains high. Moreover, the vulnerability of the economy, specifically agriculture, to extreme weather conditions is high, given the increase in the frequency of floods and droughts, as witnessed in summer 2022.

73. **Sector Strategies and Policies.** High risks in sector strategies relate to the fact that some Prior Actions of the DPO are part of comprehensive and complex reforms. The strong commitment of the Government to reforms and coordinated support by the international community are key mitigating factors. In addition, the presence of World Bank's IPF in the energy sector together with technical assistance in other sectors, is expected to mitigate these risks.

74. **Institutional Capacity for Implementation and Sustainability**. High risks in implementation relate to capacity constraints, which could hinder the effective implementation of the reforms and undermine the impact of the operation. The risks are partially mitigated by technical assistance provided by the WBG and other development partners to strengthen the capacity of selected agencies (e.g., the EU in the energy sector, and the IMF in relation to economic governance).

Table 7: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	High
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Moderate
Overall	High

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions		Results		
Prior Actions under DPO 1	**Prior Actions under DPO2**	**Indicator Name**	**Baseline**	**Target**
Pillar 1--- Increase support to refugees and households.				
Prior Action 1: The Recipient has adopted provisions to: (i) allow refugees from Ukraine to enter the territory of the Republic of Moldova with their national ID; and (ii) grant Ukrainian citizens the right to work in the Republic of Moldova without obtaining the right of temporary residence for work purposes, as evidenced by decisions of the Commission for Exceptional Situations No. 1 (1st disposition) and No. 4 (7th disposition), dated February 24, 2022, and March 1, 2022, respectively, and published on the same date by the Commission for Exceptional Situations on https://gov.md/ro/content/decizii-cse.	Prior Action 1. The Borrower has adopted a framework and an associated implementation action plan to provide a more secure legal status to refugees and better integrate them into Moldovan society by: (i) harmonizing the migration and asylum legal processes with EU legislation, and (ii) granting of temporary protection to access services including for housing, schooling, social assistance and employment, as evidenced by Government Decision No. 808 dated November 11, 2022, and published in the Official Gazette on January 19, 2023, and by Government Decision No. 21 dated January 18, 2023, and published in the Official Gazette on January 26, 2023.	Results Indicator #1: Number of female refugees that are granted the temporary protection status.	Zero (2021)	20,000 (2024)
Prior Action 2: The Recipient has adopted provisions to grant school-age refugees from Ukraine the right to access educational institutions in the Republic of Moldova, as evidenced by decision of the Commission for Exceptional Situations No. 10 (disposition No. 12.1), dated March 15, 2022, and published on https://www.gov.md/sites/default/files/document/attachments/dispozitie_cse_nr_10_din15.03.2022_modif_13.pdf, and Order No. 178 from the Recipient's Ministry of Education and Research dated March 15, 2022, and published on the same date on *https://mecc.gov.md/sites/default/files/ordin_mec_178_instructiune.pdf*.	Prior Action 2. The Borrower has adopted a framework and an associated implementation action plan to strengthen civil protection response and management in emergency situations, including from the influx of refugees, as evidenced by Government Decision No. 846 dated December 7, 2022, and published in the Official Gazette on December 12, 2022.	Results Indicator #2: Share of cases solved by the civil protection as a percentage of the requests for assistance from refugees.	Zero percent (2021)	100 percent (2024)

Prior Actions		Results		
Prior Actions under DPO 1	**Prior Actions under DPO2**	**Indicator Name**	**Baseline**	**Target**
Prior Action 3: The Recipient has taken measures to: (i) mitigate the immediate impact of the increase in gas prices by increasing the APRA and broadening its coverage; and (ii) strengthen the main social protection programs, by improving the targeting and adequacy of the benefit for the most vulnerable families, such as families with children and with members with severe disabilities, while strengthening the incentives to work, as evidenced by Government Decision No. 332 dated November 10, 2021, published in the Official Gazette on November 12, 2021 and submission to the Recipient's Parliament of the Legislative Initiative No. 118 dated April 4, 2022, amending Law No. 133/2008 on social benefit (Ajutor Social).	Prior Action 3. The Borrower has taken measures to strengthen the main anti-poverty program, by adopting a regulation of the Ajutor Social implementation in accordance with Law No. 108/2022 amending Law No. 133/2008, including the establishment of a separate guaranteed minimum income for children and an increase of the income disregard for earned child allowances, as evidenced by Government Decision No. 655 dated September 23, 2022, and published in the Official Gazette on September 29, 2022.	Results Indicator #3: Number of female-headed families receiving social assistance.	26,784 (2021)	32,000 (2024)

Prior Actions		Results		
Prior Actions under DPO 1	**Prior Actions under DPO2**	**Indicator Name**	**Baseline**	**Target**
Pillar 2--- Build resilience and enhance competitiveness to reduce vulnerabilities to future shocks.				
Prior Action 4: The Recipient has taken measures to increase the capacity of renewable energy generation, including the quotas for sustainable biofuels and biogas, as evidenced by Government Decision No. 401, dated December 8, 2021, and published in the Official Gazette on December 10, 2021.	Prior Action 4. The Borrower has taken measures to enhance energy efficiency by: (i) strengthening the legal framework through partially aligning the Energy Efficiency Law with the EU Directive 2018/2002 of the EU Clean Energy Package as adopted by the Energy Community, as evidenced by Government Decision No.43, dated February 1, 2023, published in the Official Gazette on February 2, 2023 and its submission to the Borrower's Parliament as Legislative Initiative No. 16 dated February 02, 2023; and (ii) introducing energy efficiency policies for public and residential buildings, as evidenced by Law No.187 dated July 14, 2022, and published in the Official Gazette on July 29, 2022, and Government Decision No. 536 dated July 22, 2022, and published in the Official Gazette on July 26, 2022.	Results Indicator #4: Amount of renewable energy capacity auctioned by the Government to the private sector.	Zero MW (2021)	40 MW (2024)
		Results Indicator #5: Number of public and residential building that have undertaken a full energy efficiency renovation/ rehabilitation.	Zero (2021)	50 (2024)
Prior Action 5: The Recipient has enacted laws on the insurance sector to strengthen households' financial resilience by enhancing the regulatory framework and prudential requirements, as evidenced by Law on Insurance and Reinsurance No. 92/2022, dated April 7, 2022, and published in the Official Gazette on April 29, 2022, and Law on Motor Third Party Liability Insurance No. 106/2022, dated April 21, 2022, and published in the Official Gazette on April 29, 2022.	Prior Action 5. The Borrower has taken measures to strengthen the legal framework for deposit guarantee scheme to increase the coverage of banks' deposits and strengthen capacity of the deposit guarantee fund partially aligning with the EU requirements to improve protection of households' deposits, as evidenced by Government Decision No. 142, dated March 22, 2023 and published in the Official Gazette on March 24, 2023, and its submission to the Borrower's Parliament as Legislative	Results Indicator #6: Share of insurance companies complying with the new requirements for assets eligible to cover minimum capital requirements and technical reserves.	60 percent (2021)	100 percent (2024)

Prior Actions		Results		
Prior Actions under DPO 1	**Prior Actions under DPO2**	**Indicator Name**	**Baseline**	**Target**
	Initiative No. 74 dated March 23, 2023.	Results Indicator #7: Volume of covered deposits as a percent of eligible deposits.	8.5 percent (2021)	20 percent (2024)
Prior Action 6: The Recipient has (i) taken measures to establish the NFRLD to support local development of infrastructure projects, including water and sanitation projects, and (ii) adopted regulations for its operationalization as evidenced by Law No. 27/2022, dated February 10, 2022, published in the Official Gazette on March 1, 2022; Government Decision No. 152/2022 Dated March 9, 2022, published in the Official Gazette on March 18, 2022, Government Decision No. 172/2022, dated March 16, 2022, published in the Official Gazette on March 18, 2022; and Government Decision No. 271/2022 dated April 20, 2022, and published in the Official Gazette on April 22, 2022.	Prior Action 6. The Borrower has taken measures to strengthen the legal framework of the corporate governance of SOEs by (i) mandating the Owners of State Enterprises to approve a corporate governance code, (ii) enabling the appointment of independent members to the Board of Directors of state enterprises, (iii) mandating the Owners of State Enterprises to evaluate the members of the Board of Directors of state enterprises, and (iv) mandating the Owners of Public Interest Entities to establish Audit Committees as evidenced by Government Decision No. 75, dated February 22, 2023, and published in the Official Gazette on February 23, 2023, and its submission to the Borrower's Parliament as Legislative Initiative No. 31, dated February 22, 2023..	Results Indicator #8: Share of local infrastructure projects financed through the National Fund for Regional and Local Development.	Zero percent (2021)	80 percent (2024)
		Results Indicator #9: Number of SOEs that adopt the Corporate Governance Code	Zero (2021)	15 (2024)

Prior Actions		Results		
Prior Actions under DPO 1	**Prior Actions under DPO2**	**Indicator Name**	**Baseline**	**Target**
Prior Action 7: The Recipient has adopted the Railway Transport Code and its associated implementation Action Plan to reorganize the railway sector and spur competition, including: (i) the creation of a national authority for railway safety; (ii) the delegation of the market regulation competencies to the autonomous public authority in the field of competition; and (iii) the establishment of a framework for multi-annual infrastructure contracts for railway infrastructure and public service contracts for railway passenger operations, as evidenced by Law No. 19/2022, dated February 3, 2022, published in the Official Gazette on February 18, 2022, and Government Decision No. 264 dated April 20, 2022, published in the Official Gazette on April 22, 2022.	Prior Action 7: The Borrower has adopted complementary bylaws to further support the railway sector reorganization and harmonize the national legislation with the EU standards by: (i) regulating the organization and operation of the National Railway Authority; and (ii) regulating public service contracts for railway passenger transport services, as evidenced by Government Decision No. 759 dated November 2, 2022, and published in the Official Gazette on November 11, 2022; and Government Decision No. 47 dated February 1, 2023, published in the Official Gazette on February 14, 2023.	Results Indicator #10: Signed Multi-Annual Infrastructure and Public Service Obligation contracts.	No (2021)	Yes (2024)
Prior Action 8: The Recipient has facilitated access to and improved the quality, efficiency and transparency of public services for businesses and citizens, including the digitalization of services for business lifecycle, (registration, reorganization, trading, and closing of companies), as evidenced by Law on Public Services, Law No. 234, dated December 23, 2021, published in the Official Gazette on March 22, 2022, and Articles 14 and 18 of the Amendment approved by Law No. 175, dated November 11, 2021, published in the Official Gazette on December 10, 2021.	Prior Action 8. The Borrower has facilitated access to the digitalization of services for business by: (i) introducing remote business; and (ii) approving the framework of Public Depository of Financial Statements as evidenced by Government Decision No. 141, dated March 22, 2023 and published in the Official Gazette on March 24, 2023, and its submission to the Borrower's Parliament as Legislative Initiative No. 73 dated March 23, 2023, amending Laws No. 186/2008; 81/2004; 200/2010; 242/2010; 1585/1998; and Government Decision No. 590, dated August 10, 2022, and published in the Official Gazette on September 23, 2022.	Results Indicator #11: Share of new active G2B digital services envisaged by the reform.	Zero percent (2021)	75 percent (2024)

ANNEX 2: FUND RELATIONS ANNEX

PRESS RELEASE NO. 23/128

IMF Executive Board Concludes Third Review Under the Extended Credit Facility and Extended Fund Facility Arrangements for the Republic of Moldova

April 26, 2023

The IMF Executive Board completed the third review under the Extended Credit Facility/Extended Fund Facility (ECF/EFF) arrangements with Moldova, allowing for an immediate disbursement of about US$96 million (SDR 70.95 million).

Moldova remains in a precarious position. Russia's war in Ukraine and its proximity to Moldova continue to fuel security concerns, while the social fabric remains fragile and stretched by high food and energy prices.

Prudent use of contingency plans has helped reduce energy security risks and supported the most vulnerable through the cost-of-living crisis. Continued strong reform implementation—supported by the program—helps build solid foundations for sustainable long-term development.

Washington, DC : The Executive Board of the International Monetary Fund (IMF) concluded the third review under the 40-month Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements [1] for the Republic of Moldova. [2] This allows for the immediate disbursement of SDR 70.95 million (about US$96 million), usable for budget support, and brings Moldova's total disbursements under the blended ECF/EFF arrangements to SDR 277.55 million (about US$371 million).

Moldova's economy contracted sharply in 2022, reflecting spillovers from the war; a modest recovery is expected in 2023. Inflation remains high but continues to decline rapidly. Fiscal policies are focusing on mitigating the impacts of the overlapping crises and supporting economic recovery. Risks to the energy sector have abated for now, reflecting authorities' prudent use of contingency plans. Nevertheless, the outlook remains subject to extreme uncertainty, primarily due to risks of further escalation of the war. Moldova's program implementation remains strong despite this challenging environment, notably with recent completion of important reforms, which can help promote the integrity, capacity, and independence of key anti-corruption institutions and enhance enforcement of the anti-corruption legal framework.

Following the Executive Board discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, made the following statement:

"Moldova remains in a precarious position due to overlapping crises. Russia's war in Ukraine and its proximity to Moldova continue to fuel security concerns. The social fabric remains fragile and under pressure from high food and energy prices. In this context, the new government has emphasized its commitment to reforms, and program implementation remains strong despite the challenging environment.

“The economy contracted sharply in 2022, in the wake of suppressed demand from the soaring cost of living, spillovers from the war, and weaker agricultural production. A modest recovery is expected in 2023, supported by a pickup in domestic demand and better growth prospects in trading partners. Inflation continues to decelerate, and fiscal indicators remain robust. International reserves continue to provide an adequate safeguard against external shocks; while well-capitalized, liquid, and profitable banks have weathered the initial impact of the war.

“As the outlook is subject to high uncertainty, near-term priorities should remain focused on mitigating the impact of the war, ensuring energy security, adapting contingency plans to evolving risks, and maintaining an appropriate policy mix. Once near-term pressures from the crises subside, the authorities appropriately plan to reorient spending toward supporting the recovery. The current gradual monetary policy easing is appropriate given the inflation outlook. At the same time, future monetary policy decisions should remain data-driven and forward looking, with further easing being conditional on a persistent decline of both headline and core inflation.

“The authorities have implemented important reforms to strengthen anti-corruption and the rule of law. It will be essential to advance reforms in other areas, including fiscal governance, financial sector oversight, and governance and efficiency of state-owned enterprises. The authorities are also developing an ambitious agenda to address climate-related challenges. They have expressed interest in receiving financing under the IMF’s Resilience and Sustainability Facility to support their climate-related policy and development goals and to help catalyze official and private financing for green investments.”

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[1] Arrangements under the ECF provide financial assistance that is more flexible and better tailored to the diverse needs of low-income countries (LICs), including in times of crisis (e.g., protracted balance of payments problems). Those under the EFF provide assistance to countries experiencing serious payment imbalances because of structural impediments or slow growth and an inherently weak balance-of-payments position.

[2] The 40-month ECF/EFF arrangements were approved in December 2021 (Press Release) and augmented in May 2022 to increase total access under the arrangements to SDR 594.26 million (Press Release).

ANNEX 3: LETTER OF DEVELOPMENT POLICY

GUVERNUL REPUBLICII MOLDOVA

Nr.01-79-4156 Chişinău 18 April 2023

Mr. David Malpass
President
The World Bank
1818 H Street NW
Washington DC 20433
USA

Letter of Development Policy for the Moldova: Emergency Response, Resilience, and Competitiveness Development Policy Operation 2

Dear Mr. President,

On behalf of the Government of the Republic of Moldova, I have the pleasure of submitting the letter of development policy for the second operation in a series of two - "Moldova: Emergency Response, Resilience, and Competitiveness Development Policy Operation (DPO2)."

This letter presents the country context for this operation and summarizes critical aspects of the program that we are committed to fulfil in order to increase the support to refugees and households, to build resilience and to enhance competitiveness aiming to increase resilience to future shocks.

With the goal of transforming fundamentally the country and institutions to work on behalf of and in the best interest of their citizens to fulfil their aspirations and potential, the Government has introduced measures aiming at fighting poverty and social inequities. It also advanced the judiciary and anti-corruption agenda. However, the Government's efforts to support the ambitious reform program were taken up first by the gas crisis and then, by the unprecedent challenges and consequences of the unjustified Russian Federation's invasion of Ukraine. These crises risk derailing the long-term agenda of the modernization of the public administration, the structural transformation of the economy, and the establishment of a conducive environment for the private sector to thrive and generate more and better jobs, that are all critical to support the convergence towards the European standard of living, and high degree of social inclusion and cohesion in the society. Nevertheless, the new Government agenda is primarily focused on facilitating new business opportunities and developing existing businesses, including incentives to reinvest revenues in stimulating economic activity and creation of new jobs.

The Government acted promptly to these social and economic challenges by taking immediate actions to welcome Ukrainian and foreign citizen seeking refuge. Since the start of the agression almost 800,000

Casa Guvernului,
MD-2033, Chişinău,
Republica Moldova

Telefon:
+ 373 22 250 101

Fax:
+ 373 22 242 696

Ukrainian and foreign citizen entered the Republic of Moldova, while over 81,000 refugees decided to stay and are currently hosted and integrated by the Republic of Moldova.. The Government has also taken measures to mitigate the potential economic impact on households due to the expected increase in food and gas prices, including the recent set up of the Energy Vulnerability Reduction Fund (EVRF) to mitigate the impact of higher gas, heating, and electricity tariffs on households during this winter.

The Government has made huge efforts to secure the country's energy resources with a proactive strategy to reduce the country's dependency on a single source of supply for both gas and electricity. In October 2022, the Government recapitalized Energocom for an advance payment to Gazprom to avoid the potential interruption of the gas supply and for the purchase of electricity from the EU to offset the reduction of electricity from MGRES and Ukraine. The Government has later purchased gas and oil in advance to meet most of the country's needs for the winter, reducing the risk of future gas interruptions and potential spikes in gas prices. Finally, it has also secured a contract to MGRES to provide a large portion of Moldova electricity needs for this winter. The society has also made efforts - households, institutions and businesses have substantially reduced their energy consumption.

Despite these efforts, the overwhelming shock has plunged the economy into a severe recession in 2022, with inflation remaining high amid rising food and energy prices. Now, we have to deal with a complex set of issues. The social and economic fallout of the conflict, including the interruption supply chains, an anticipated reduction in remittances (especially from our diaspora in Russia), and the exponential increase in food and energy prices further strain household budgets in a country where more than a quarter of the people are living in absolute poverty. The budget deficit is projected to reach about 6% in 2023, reflecting the measures introduced to mitigate the impact of energy crisis, the additional costs to assist refugees, and reduced revenue collection due to the contraction in the economic activity.

Against this background, the second Development Policy Operation in the series of Moldova: Emergency Response, Resilience, and Competitiveness is instrumental to support our efforts to mitigate the impact of Russia's invasion of Ukraine, while maintaining the momentum on the long-term agenda.

The Government has also taken actions to provide a secure legal status to refugees, integrate them into the Moldovan economy and guarantee access to public services. The Government after its initial emergency response is now moving towards a framework for refugees` management by harmonizing the migration and asylum legal processes with the EU legislation and granting of temporary protection to access services including for housing, schooling social assistance and employment (Prior Action 1). The Government has also taken actions to strengthen civil protection response and management in emergency situation. The recent influx of refugees has highlighted the lack of a modern framework for civil protection management of emergency situations and the need to respond to the constantly evolving nature of emergencies that are becoming more complex and cover a broader set of challenges, such as the refugee crisis, but also future pandemics or natural disasters. The Government has now adopted a framework to guide activities for the prevention of, preparation for, and national response to growing emergency and exceptional situations that Moldova is facing at both the national and local levels (Prior Action 2). While this framework is an important step to address weaknesses highlighted during COVID 19 and the refugee crisis, the Government is fully committed to further enhance Moldova's disaster risk management and resilience management approaches to a wider range of hazards, including natural distastes exacerbated by climate change. We will work with the World Bank to enhance Moldova's ability to better manage the different shocks and stresses the country is facing. Finally, the Government has continued its efforts to reform the main social protection program by adopting a Government's Decree to further support the reform of Ajutor Social and help with the implementation of the amended law supported in DPO1 (Prior Action 3).

While the Government remains committed to mitigate the impact of the war on refugees and households, it also recognizes the need to continue the efforts to address a large unfinished development reform agenda that support the country's economic, social, and structural transformation. In this context, the Government welcomes the World Bank's DPO to accompany our efforts and commitments to strengthen the foundation for an inclusive and sustainable growth by building resilience to mitigate the impact of future crises and enhancing competitiveness to reduce vulnerabilities from future shocks.

We are committed to continue our efforts to build resilience and address energy security, reliability, and affordability. In addition to diversifying energy sources and increasing the generation of renewable energy, our efforts also aim at increase energy efficiency by adopting and implementing a legal and regulatory framework to boost the implementation of energy efficiency measures in residential and public buildings (Prior Action 4). The Government has also taken actions to provide protection to households' financial savings by amending the legal framework for a deposit guarantee scheme to increase the coverage of banks' deposits and strengthen the capacity of the deposit guarantee fund in line with the EU requirements (Prior Action 5). We are committed to continue our efforts to strengthen the legal framework of the corporate governance of SOEs by taking measures that both clarify the role and responsibility of ownership functions of the Public Property Agency and introduce the professionalization of the state-ownership management and supervision members (Prior Action 6). Finally, we have continued our efforts to improve connectivity and digitalization. We have also taken further steps to unbundle the railway sector by establishing the National Authority for Railways and introduction the public service contract for railway passenger operations (Prior Action 7). We have also taken measures to introduce contactless business operations and developed a framework for the Public Depository of Financial Statements (Prior Action 8).

The Government of Moldova is committed to continue these efforts and welcome the World Bank support with the DPO series in these areas. In particular, the Government is fully engaged to enact all the Laws that were submitted to Parliament as part of this operation, to adopt any complementary Government's Deerees and allocate necessary resources to fully implement the reform on these critical areas and to implement the reform areas supported by the first operation on renewable energy, local infrastructure financing, including for water and sanitation.

Let me take this opportunity, on behalf of the Government of the Republic of Moldova, to thank the World Bank for its support during these difficult times in the history of our country. I have full confidence that the Republic of Moldova in partnership and with the support of the World Bank and other external development partners can overcome these unprecedented challenges.

Sincerely,

Dorin RECEAN
Prime Minister

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1:		
Prior Action #1	No	Yes, positive
Prior Action #2	No	Yes, positive
Prior Action #3	No	Yes, positive
Operation Pillar 2:		
Prior Action #4	Yes. Positive indirect impacts due to the CO_2 emission reduction	No, but potential impacts should be assessed and considered when specific measures are designed and implemented
Prior Action #5	No	Yes, positive
Prior Action #6	No	No
Prior Action #7	Yes. Potentially indirect positive impacts as the reorganization would help make the sector more competitive and attractive for users, gradually shifting the mix of transport both for passengers and freight away from road, with positive indirect impacts due to the CO_2 emission reduction	Yes, positive
Prior Action #8	Yes. Positive indirect impacts due to the CO_2 emission reduction	No

Poverty and Social Analysis

Measures supported by Prior Action 1 to move from emergency measures to longer-term support are expected to benefit refugees fleeing Ukraine. The granting of temporary protected status to the 102,000 displaced Ukrainians currently in Moldova—most of them women and children—ensures their access to education, health care, accommodation, social assistance, and the labor market without the need to meet the usual qualifying criteria. A temporary instead of only emergency protected status is expected to provide Ukrainian refugees with greater stability, encourage self-sufficiency, reduce vulnerabilities, and improve their mental and physical well-being. Enabling better access to the labor market can be beneficial to the Moldovan economy and has been shown in other contexts to: (i) help limit increases in informal, lower wage work, and make more effective use of the skills that migrants bring with them; (ii) boost self-reliance and reduce the scope for criminal or anti-social behavior; and (iii) increase tax revenues and reduce the need for subsidized access to social services.[39] In addition, granting access to formal sector employment helps shield refugees, who are overwhelmingly female, from risk of sexual harassment and other safety concerns, which are likely be more prevalent in informal employment. Access to education helps mitigate against human capital losses due to disruption to learning and can help provide children with a sense of normalcy. Access to health facilities can help address some of the physical and psychological damages of Russia’s invasion of Ukraine and improve the productivity of workers and children’s learning. The provision of accommodation and social assistance helps to reduce the vulnerability, particularly of those who are less able or unable to work such as the elderly and those with disabilities. Among the measures being implemented under the Law on Temporary Protection is the sensitization of the public to the plight of migrants, which should minimize concerns regarding competition for jobs.

Prior Action 2 to strengthen emergency response and civil protection is expected to have positive distributional impacts. Poor and vulnerable populations, with a limited asset base and coping strategies, are often disproportionately hurt by shocks and emergency situations such as extreme climate-related events and pandemics. Establishing a comprehensive framework and action plan, if well-implemented, can strengthen civil protection management response during crises, including the recent influx of refugees. This is expected to have immediate positive impacts on the Ukrainian refugees and could protect more vulnerable Moldovans in the event of future crises.

The modification of Ajutor Social benefit formulas (Prior Action 3) is expected to increase coverage and benefit amounts for families with children which is expected to yield positive poverty and distributional impacts. . The increase in the coefficient for children in the Ajutor Social formulas used for determining beneficiary qualification and benefit amounts is expected to increase the proportion of families with children benefiting from social assistance and increase the benefit amounts to these families. An increase in the additional “income disregard” per child (income not considered in computing the benefits) can also make more families eligible for the benefit. This is expected to have positive poverty impacts and distributional impacts as families with two or more children generally have among the highest poverty rates, recording a poverty rate of 27.3 percent in 2021, exceeding the overall poverty rate of 24.5 percent

Prior Action 4 of adopting a legal and regulatory framework to boost energy efficiency is not expected to have direct poverty and social impacts, but potential impacts should be assessed and considered when specific measures are designed and implemented. If during implementation, the programs are appropriately targeted to poorer and vulnerable households, and these households have sufficient access to finance on favorable terms to undertake energy efficient upgrades, they are likely to help reduce energy bills and vulnerability to energy crises that often disproportionately hurt poorer Moldovans who have fewer financial buffers. The switch from the use of solid fuels as an energy source could also improve the health status, comfort and living conditions in dwellings while improving the overall air quality. Depending

[39] Clemens, M., Huang, C. and Graham, J. (2018). "The Economic and Fiscal Effects of Granting Refugees Formal Labor Market Access," Working Papers 496, Center for Global Development.

on the implementation of energy efficiency programs in multi-apartment buildings that require collective decision-making, there may be social impacts that should be monitored and require adequate stakeholder consultations.

The increase in the maximum covered funds in the Deposit Guarantee Scheme (PA4) is expected to have positive poverty and distributional impacts. In 2021, it was estimated that 54 percent of the population 15+ in the bottom 40 percent in Moldova had account ownership at a financial institution or with a mobile-money service provider (World Bank, 2021). Increased coverage for banking sector deposits can help to strengthen the protection and resilience of households' finances, which is particularly important for low-income Moldovans who have less access to other forms of insurance and often have limited other assets.

Reform to strengthen SOE corporate governance (PA6) and the ability to conduct business remotely through the digitalization of business services (PA8) are expected to have neutral distributional effects. While these Prior Actions are not expected to have significant immediate poverty impacts, there could be indirect positive impacts through improvements in functioning and processes and competitiveness of the economy. Reform to improve transparency and fairness in the selection, appointment, and remuneration of the SOEs executive and supervisory Board members could lead to greater oversight, less corruption, and improved management of state assets. Should this lead to less government expenditure on SOEs, more resources may be available for social expenditures that are important for growth and poverty reduction. The ability to conduct business remotely could lead to increased foreign investment, particularly among the diaspora, which could have potential poverty and distributional impacts through the labor market and lower prices to end consumers as a result of increased competition in the market.

The stipulation of continued provision of socially desirable railway routes under (PA7) is expected to have positive poverty and distributional impacts. The provision in the framework for Public Service Contracts that railway operators maintain services in remote areas, even if not financially viable, is expected to have positive poverty and distributional impacts. One of the greatest drivers of inequality of opportunity in Moldova is urban/rural location (EBRD, 2016). Maintaining transport connections in underserved rural areas can help ensure that poorer Moldovans remain connected to jobs, markets and services, which often are not immediately accessible in rural areas. Ensuring remote communities remain connected can help close gaps in standard of living based on geographic location, as well as contribute to the development of rural areas. PA7 does not require, prescribe, or recommend any labor rightsizing in the sector.