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Report No: PGD302

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT
FOR A

PROPOSED LOAN
IN THE AMOUNT OF EUR 40.8 MILLION (US$43 MILLION EQUIVALENT)

AND A PROPOSED CREDIT
IN THE AMOUNT OF EUR 101.3 MILLION (US$107 MILLION EQUIVALENT),
OF WHICH
EUR 94.7 MILLION (US$100 MILLION EQUIVALENT)
FROM THE IDA CRISIS RESPONSE WINDOW,

WITH THE GLOBAL CONCESSIONAL FINANCING FACILITY SUPPORT
IN THE AMOUNT OF US$9.24 MILLION

TO
REPUBLIC OF MOLDOVA

FOR THE
MOLDOVA EMERGENCY RESPONSE, RESILIENCE AND COMPETITIVENESS DPO

May 19, 2022

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

Public Disclosure Authorized

Republic of Moldova

GOVERNMENT FISCAL YEAR

January 1– December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2022)

Currency Unit: Moldovan Leu (MDL)

18.43 MDL = US$1 = EUR 0.95

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement (French Development Agency)	MFA	Macro-Financial Assistance
APRA	Ajutor pentru Perioada Rece a Anului (Cold Season Benefit)	MSMEs	Micro, Small, and Medium Enterprises
AS	Ajutor Social	MTPL	Motor Third-Party Liability
CFM	Calea Ferată din Moldova	NBCOs	Non-Bank Credit Organizations
CPF	Country Partnership Framework	NBM	National Bank of Moldova
CPSD	Country Private Sector Diagnostic	NBS	National Bureau of Statistics
CRW	Crisis Response Window	NCFM	National Commission for Financial Markets
DPO	Development Policy Operation	NDC	Nationally Determined Contribution
EBRD	European Bank for Reconstruction and Development	NFRLD	National Fund for Regional and Local Development
ECF	Extended Credit Facility	NPL	Non-Performing Loans
EFF	Extended Fund Facility	OCHA	Office for the Coordination of Humanitarian Affairs
ESA	Environmental and Social Assessment	PEFA	Public Expenditure and Financial Assessment
EU	European Union	PFM	Public Financial Management
FDI	Foreign Direct Investment	PLR	Performance and Learning Review
G2B	Government-to-Business	PPG	Public and publicly guaranteed debt
GD	Government Decision	PSCs	Public Service Contracts
GDP	Gross Domestic Product	RBF	Results-Based Financing
GFCC	Global Concessional Financing Facility	RE	Renewable Energy
GHG	Greenhouse Gas	SA	Social Assistance
GMI	Guaranteed Minimum Income	SCAs	Savings & Credit Associations
HBS	Household Budget Survey	SCD	Systematic Country Diagnostic
IFIs	International Financial Institutions	SCM	Superior Council of Magistracy
IMF	International Monetary Fund	SCP	Superior Council of Prosecutors
IPF	Investment Project Financing	SMEs	Small and Medium Enterprises
KPI	Key Performance Indicators	SOE	State-Owned Enterprises
LPAs	Local Public Authorities	VAT	Value-Added Tax
MAIC	Multi-Annual Contracts for Railway Infrastructure	WB	World Bank
MDTF	Multi-Donor Trust Fund	WDI	World Development Indicators
		yoy	Year-on-year

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REPUBLIC OF MOLDOVA

MOLDOVA EMERGENCY RESPONSE, RESILIENCE, AND COMPETITIVENESS DPO

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The Moldova Emergency Response, Resilience, and Competitiveness Development Policy Operation was prepared by the World Bank team led by Stefano Curto and Natasha Rovo and comprising Marcel Chistruga, Tom Bundervoet, Kristina Noelle Vaughan, Elena Lungu, Dominic Pasquale Patella, Sandeep Kohli, Koji Nishida, Ion Efros, Constantin Rusu, Galina Cicanci, Laura Pop, Roman Zhukovskyi, Natalie Nicolaou, Alena Zielinski, Iryna Shcherbyna, Smita Misra, Amelia Midgley, Madhavi Pillai, Anatol Gobjila, Arcadie Capcelea, Oxana Druta, Elena Corman, Alexandra Lelouch Loebl, Felix Alberto Quintero Vollmer, Eric Ranjeva, and Carolina Odobescu.

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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
P175640	Yes	1st in a series of 2

Proposed Development Objective(s)

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

Organizations

Borrower:	REPUBLIC OF MOLDOVA
Implementing Agency:	Ministry of Finance

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**159.24**

DETAILS

International Bank for Reconstruction and Development (IBRD)	43.00
International Development Association (IDA)	107.00
IDA Credit	107.00
Trust Funds	9.24
Concessional Financing Facility	9.24

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: Share of employed Ukrainian women as percentage of total refugees' employment contracts registered at the National Employment Agency.	Zero percent (2021)	75 percent (2024)
Results Indicator #2: Share of refugees from Ukraine (age 6-18 years) requesting education services enrolled in the educational system.	Zero percent (2021)	85 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: Share of insurance companies that comply with the new capital requirements.	60 percent (2021)	100 percent (2024)
Results Indicator #6: Share of local infrastructure projects financed through the National Fund for Regional and Local Development.	Zero percent (2021)	80 percent (2024)
Results Indicator #7: Signed Multi-Annual Infrastructure and Public Service Obligation contracts.	No (2021)	Yes (2024)
Results Indicator #8: Share of new active G2B digital services envisaged by the reform.	Zero percent (2021)	75 percent (2024)

IBRD AND IDA PROGRAM DOCUMENT FOR A PROPOSED LOAN AND CREDIT TO REPUBLIC OF MOLDOVA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Operation (DPO) for US$150 million—the first in a series of two operations—supports Moldova's efforts to respond to unprecedented challenges, 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 that has left, as of April 30, 2022, about 20 percent of the population infected and 11,489 dead, to a severe drought that reduced agricultural production by 34 percent in 2020, and the European gas crisis that pushed gas prices up by around 400 percent in the second half of 2021. Just as Moldova was emerging from this series of severe shocks, the social and economic spillovers from the war in Ukraine have put at risk its short-term economic recovery and its long-term economic prospects. This comes at a time when the new Government, which took office on August 6, 2021, was beginning to lay the foundations for a more sustainable and inclusive growth built on an ambitious reform program. In this context, the DPO aims to help the authorities: (i) mitigate the impact of the war in Ukraine on refugees and households; and (ii) build resilience and enhance competitiveness to reduce vulnerabilities to future shocks. This operation - with its support to both short- and longer-term impacts of the crisis - is aligned with the strategic framework for the Proposed Roadmap for the World Bank Group Response to Global Impacts of the War in Ukraine (2022).

2. **This operation is part of a package of coordinated financial assistance to Moldova from international partners prepared in response to the ongoing socioeconomic emergency.** This package includes an augmentation of the IMF Extended Credit Facility (ECF) and Extended Fund Facility (EFF), the EU Macro Financial Assistance (MFA), a line of credit from the European Bank for Reconstruction and Development (EBRD), and budget support from the World Bank with parallel financing expected from the Agence Française de Développement (AFD). The Global Concessional Financial Facility (GCFF) provides the grant co-financing through this operation to support the authorities' efforts in the refugee crisis. This operation includes exceptional financing to Moldova from the IDA19 Crisis Response Window (CRW) approved by the Board of Executive Directors in June 2021 and the Exceptional IDA19 Support to Moldova and Ukraine in April 2022 approved by Board of Executive Directors in April 2022. As a result of the exceptional access of CRW resources, no separate CRW eligibility note has been submitted to the Board; details of the economic crisis for which resources are extended are described in this program document. The World Bank is also coordinating efforts of bilateral donors to channel grant financing by setting up a Multi-Donor Trust Fund (MDTF) to provide co-financing under this series of DPOs to support the Government's program.

3. **The war in Ukraine has triggered a massive influx of refugees, reaching 13 percent of the Moldovan population in just the first few weeks of the conflict.** As of April 22, the UN[1] estimated that almost 430,000 refugees from Ukraine had crossed the border into Moldova. The vast majority of the refugees from Ukraine entering Moldova are women, of which 33 percent are reported to be travelling with children aged 0–5, 59 percent travelling with children aged 6-18, and up to 10 percent with elderly

[1] Office for the Coordination of Humanitarian Affairs (OCHA)

people, with 5 percent comprising people with disabilities. More than 91,000 refugees have remained in Moldova, of which more than 48,000 are children. 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;[2] and school-age refugees represent about 9 percent of the pupils that regularly attend pre-kindergarten to secondary schools. Moreover, while the capital, Chișinău, remains the main refugee-hosting area, some smaller cities with very limited capacity are also hosting substantial numbers of refugees relative to their populations.[3] The Government of Moldova acted promptly in declaring a State of Emergency and providing shelter, food, medical and educational services, livelihoods and information to the refugees. The Government also approved emergency measures aimed at: (i) facilitating entry for Ukrainian citizens and third-country nationals in Ukraine fleeing the war; (ii) facilitating integration into the labor market for those who opt to stay in Moldova; and (iii) granting access to educational services to school-age refugees.

4. **The war in Ukraine has also disrupted trade and supply of food and energy.** Although the direct exposure in terms of exports from the Russian Federation and Ukraine is just below 15 percent, imports are expected to be affected more directly. While the share of the Russian Federation and Ukraine in total imports represents about 25 percent, Moldova imports about 42 percent of its food from Ukraine[4] and the Russian Federation and imports 100 percent of its gas from the Russian Federation. Moreover, Moldova's most important power plant, which accounts for about 85 percent of the total generation capacity in the country, relies on imported gas from the Russian Federation to generate electricity. The war is expected to put further upward pressure on prices, which had already increased by almost 20 percent for food and about 400 percent for gas in 2021. The broader impact on trade is not only due to Moldova's direct exposure to the Russian Federation and Ukraine but also because a large part of the country's logistic infrastructure relies on Ukrainian networks to connect with the rest of the world. The preferred route to and from Poland, Germany, Belarus and the Baltic States currently transit from the west of Ukraine, while trade with America, the Middle East and Asia is mainly shipped from the port of Odessa. However, most of the transport of freight is by trucks and only 15 percent is by freight railway. Therefore, while trade routes can be adjusted, an increase in transportation costs can be expected.

5. **The war in Ukraine may also trigger the return of Moldovan migrants from Ukraine and the Russian Federation, as the private sector in the host countries is taking a toll due to the war and the associated sanctions.** The Moldovan Border Police registered 44,326 border crossings[5] of people with a Moldovan passport coming from Ukraine between February 24 and April 6. As of 2020, 152,000 Moldovan migrants lived in Ukraine and 294,000 in the Russian Federation.[6] Most of the migrants are unskilled workers: most male migrants are seasonal workers mainly in construction, while most female migrants are unskilled domestic workers, who will be confronted with an economy that has limited capacity to generate good jobs —the main cause of one of the largest diasporas in the world in the past decades.

[2] In 2021, 843,400 Moldovan were employed and 28,200 were unemployed for active labor force of 871,600.
[3] Taraclia, Causeni, Stefan Voda, Criuleni all have >1,000 refugees per 100k local population.
[4] On March 9, the Ukrainian Government imposed a ban on exports of key agriculture products, including wheat, corn, grains, salt, and meat.
[5] The official statistics from the Border Police do not discriminate between a single individual crossing multiple times, cross-border movements of Moldovan citizens who travel/commute to Ukraine and return, or their motivation for returning.
[6] https://moldova.iom.int/sites/g/files/tmzbdl266/files/documents/MOLDOVA%20GMDAC%20Report%202021.04.22_rev-IOM_cleaned.pdf

Many return migrants may require temporary access to the Moldovan social protection system, instead of being a steady source of remittances.[7] In the medium term depending on labor conditions, many return migrants are expected to migrate to the EU, as they hold dual Romanian citizenship.

6. **The combination of the above factors has the potential to substantially affect Moldovan families, particularly the poor, and the country's fiscal position.** GDP growth for 2022 is expected to be downgraded by 4.3 percentage-points from the pre-war forecast (from 3.9 percent to -0.4 percent). Reduced household purchasing power due to higher energy and food prices, together with depressed consumer confidence due to mounting uncertainties and limited economic opportunities, is expected to severely affect private consumption despite one of the largest fiscal responses in Moldova's history. Despite the additional spending in 2022 to protect households' disposable income from increasing energy and food prices exacerbated by the war in Ukraine, the poverty rate in Moldova is projected to increase by 2.4 percentage points relative to a pre-crisis projection, based on the upper middle-income poverty line of US$5.5 per day. As a result, Moldova is expected to remain one of the poorest countries in Europe and this is likely to slow its convergence with the European standards of living.

7. **In the face of these unprecedented challenges, Moldova still has a very large unfinished development reform agenda to support the country's economic, social, and structural transformation.** Well before the recent shocks, Moldova's growth model, which is heavily dependent on remittance-financed consumption, had begun to show its limitations. The growth model has failed to nurture structural transformation and competitiveness, limiting business opportunities and job creation in the tradable sectors, and creating a vicious cycle of further outward migration, with the population declining by 10 percent over the past five years. Moldova's development has also been derailed by frequent economic shocks and natural disasters. The 2020 drought was just the latest in a long and increasingly frequent series of weather-related events that are being exacerbated by climate change, including flooding and droughts, which are disastrous for Moldova's primarily rain-fed agriculture. Since 2000, Moldova has witnessed, on average, one major climate-related event occurring every three years. Given Moldova's inherent vulnerability associated with a small landlocked economy, its reliance on food and energy imports, and its vulnerability to an increasing frequency of natural disasters, there is an urgent need to build resilience, particularly with reference to climate change and energy security.

8. **Against this backdrop, the first DPO in the series aims to help the authorities mitigate the economic impact of the war in Ukraine, while maintaining the momentum on the long-term agenda.** At the current economic juncture, it is paramount that short-term measures are complemented by long-term reforms that will help steer the economy away from the current economic model. In this context, the first DPO supports critical reforms but recognizes them as an important first step to address Moldova's multiple development challenges ahead. The DPO complements other International Financial Institutions' (IFIs) programs and builds on a strong policy dialogue, and analytical and advisory work across policy areas identified as binding constraints by the recently completed Systematic Country Diagnostic (SCD) Update and consistent with the ongoing IFC Country Private Sector Diagnostic (CPSD). The support is structured under two pillars:

[7] The Moldovan diaspora in the Russian Federation and Ukraine generates about one-quarter of total remittances, equivalent to about 4 percent of GDP prior to the war in Ukraine.

- **Mitigate the impact of the war in Ukraine on refugees and households (Pillar 1):** The integration of refugees from Ukraine is important not only from a solidarity standpoint but also for social cohesion in the host communities and economic resilience, given Moldova's aging population and increasingly binding skills shortages.[8] In this context, measures supported in Prior Action 1 (PA1) grant Ukrainian citizens the right to work in Moldova without the need to follow standard procedure for foreigners, while PA2 grants school-age refugees from Ukraine access to schools. Moreover, to mitigate the immediate impact of higher energy prices, PA3 supports an increase in the cold season benefit (APRA) and expands the coverage of vulnerable families, while improving the design of the main social assistance program for future shocks (Ajutor Social).
- **Build resilience and enhance competitiveness to reduce vulnerabilities to future shocks (Pillar 2):** The 2021 SCD Update highlights the urgent need to build resilience and preparedness to mitigate the socio-economic consequences 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. The 2021 SCD Update also highlights the need to enhance private sector competitiveness and economic diversification through the improvement of the environment in which firms operate, to become more conducive to productivity, growth, and job creation. In this context, PA4 supports the increase of the capacity of renewable energy generation, including sustainable biofuels and biogas, to help with energy security, reliability, and affordability, while protecting Moldova's forests. PA5 supports the strengthening of the regulatory framework of the private insurance industry in line with the EU Directives to help rebuild trust in the industry by households and firms that need help to be better protected from unexpected shocks. PA6 supports the measures to establish the National Fund for Regional and Local Development (NFRLD) to provide more efficient, effective, and transparent support to infrastructure projects, including in the critical areas of water and sanitation. In view of the fact that Moldova is a landlocked country with a small domestic market, PA7 supports the reorganization of the railway sector to play an increasing role in successfully integrating firms, consumers, inputs, and goods within the country with regional and global markets in a more sustainable manner. Also strategically supporting Moldova's competitiveness in an era of rapid digitalization, as witnessed during the pandemic, PA8 supports the digitalization of public services to contribute not only to competitiveness by reducing the cost of dealing with public administration but also by reducing spatial disparities in public service delivery.

9. **The risks associated with the proposed operation are high.** While there is a strong domestic consensus around the World Bank-supported reform agenda, there are downside risks that could delay or complicate the implementation of structural reforms. There is high uncertainty surrounding the war in Ukraine and its socio-economic ramifications in Moldova, as well as globally. Further weakening of economic activity and/or tightening of financial conditions could dampen growth prospects and impact the willingness of domestic investors to rollover debt. These risks are partially mitigated by Moldova's macroeconomic policies and commitment to full adherence to the fiscal and monetary targets of the IMF program, which serves as a macro-fiscal anchor. Moreover, other development partners are expected to provide significant financing and technical assistance to support Moldova in the current crisis.

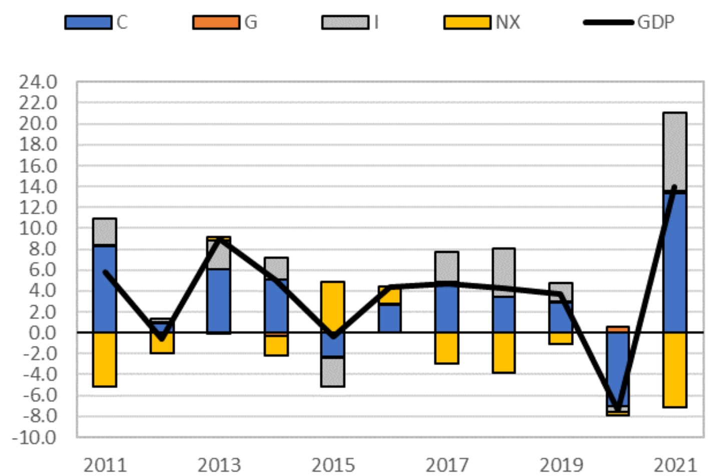
[8] 2019 Enterprise Survey (*https://www.enterprisesurveys.org/en/data/exploreeconomies/2019/moldova*).

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

10. **Before the war in Ukraine, the Moldovan economy had been successful in fully recovering from one of the deepest recessions in Europe.** With the loosening of COVID-19 restrictions, economic activity bounced back by 13.9 percent in 2021 from a decline of 7.4 percent in 2020. While helped by a low-base effect, the economic recovery was driven by strong household consumption due to wage increases, remittances, and social transfers. Investment also registered a strong increase on the back of favorable monetary conditions and market sentiment. Finally, net exports negatively contributed to growth due to a stronger growth in imports than exports. On the supply side, all sectors of the economy displayed a strong performance after the sharp contraction of 2020. The most dynamic sector was agriculture, which rebounded after the severe drought in 2020. However, since then, the war in Ukraine has adversely affected the Moldovan economy, private consumption and investment in the first half of 2022.

Figure 1: Contributions to real GDP growth per annum (percent point)



Source: World Bank calculations.

11. **Despite a strong performance in 2021, the external sector has been negatively affected by the war in Ukraine.** The trade position deteriorated in 2021, as imports expanded quickly, mirroring the pace of domestic demand. The increase in trade in services and in secondary income flows only partially compensated for this. As a result, the current account deficit reached about 12 percent of GDP in 2021. Moreover, in the same period, net direct investments increased, while remittances remained resilient at almost 15 percent of GDP. While official reserves reached US$3.9 billion as of December 2021 yoy — exceeding a coverage of seven months of imports— the uncertainty surrounding the war in Ukraine has brought pressure on the exchange rate and international reserves, which have declined by about 5 percent and 10 percent since the beginning the war, respectively.

12. **The accommodative monetary stance adopted in 2020 was reversed in the second half of 2021 to respond to growing inflationary pressures.** The increase in global energy and food prices, together

with strong domestic demand and a moderate currency depreciation, increased inflationary pressure in the second half of 2021. The inflation rate increased steadily, breaching the central bank's target (5 percent +/- 1.5 percent) in September 2021, and reaching 27 percent yoy in April 2022. Prices of food and gas increased by more than 20 percent and 400 percent, respectively. The war in Ukraine has brought renewed pressure on prices. The National Bank of Moldova (NBM) responded swiftly by tightening monetary policy and raising the policy rate six times since June 2021, moving it from 2.65 percent in June 2021 to 15.5 percent in May 2022. Credit growth has also been steadily rising, reaching 20 percent yoy in July 2021, and has hovered at that level since then, reaching 21.1 percent yoy in January 2022.

13. **Reforms in the banking sector helped put the sector on sound footings.** The NBM undertook significant reforms and, in June 2019, completed the process of implementing more stringent capital, liquidity, and governance requirements. As a result, the banking sector has remained well-capitalized and liquid, although profitability was affected in 2020 due to the COVID-19 pandemic.[9] The ratio of non-performing loans (NPLs) to total loans continued its declining trend, reaching 6.1 percent, down from 7.4 percent in 2020. However, the first weeks of the war in Ukraine witnessed rising concerns from the public over the unfolding war, which led to a steady withdrawal of bank deposits, reducing commercial banks' appetite to finance government securities despite relatively large liquidity reserves and higher interest rates proposed by the Government. While the situation has improved in recent weeks, risks associated with a potential resumption of withdrawal of bank deposits remain. Moreover, the non-banking financial sector, which has been growing,[10] remains a source of vulnerabilities with a significant number of insurers are at risk of insolvency and showing signs of weak capacity to pay claims.

14. **Moldova continued its fiscal expansion throughout 2021 and the first half of 2022.** The escape clause to the country's fiscal rule in case of an emergency was activated in 2020 in response to the pandemic. Spending increased rapidly to mitigate the impact on economic activity, on firms and households, and to meet the health-care needs. In 2021, health (+35.4 percent, yoy) and social protection (+13 percent, yoy) were the main drivers of the spending increase, notably after the increase in minimum pensions. Investment increased by 17.6 percent despite lower execution of capital investments. Revenue collection rebounded strongly (+23.5 percent, yoy) after the relaxation of restrictive measures. Due to lower execution and higher-than-expected revenue, the fiscal deficit in 2021 reached almost 2 percent of GDP, well below the budgeted deficit of about 5 percent of GDP. Already before the war in Ukraine, Parliament had approved the 2022 Budget Law with a deficit of 6.0 percent of GDP to support investments and the ambitious reform program. The budget foresaw a substantial increase in social spending (social assistance and pensions), reflecting the recent increase in minimum pensions, the indexation of pensions, and measures to mitigate the energy price shocks.[11]

15. **Strong growth helped public and publicly guaranteed debt to decrease to around 31 percent of GDP in 2021.** Public and publicly guaranteed (PPG) debt has been on a downward trend since its peak of

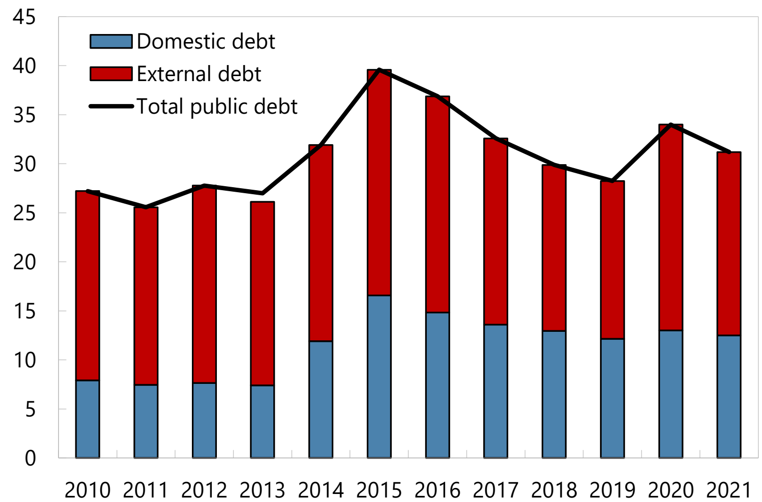
[9] As of December 2021, the share of total assets of the banking sector had further increased to 57.5 percent of GDP; the aggregate liquidity position remained high at 48.5 percent (compared with the minimum value of 20 percent); the average risk weighted capital adequacy ratio (CAR) for the system was 25.8 percent, well above the minimum 10 percent; and profitability ratios remained positive, with return on equity (RoE) of 12.4 percent and return on assets (RoA) of 2.0 percent.

[10] As of September 2021, the share of total assets held by non-bank credit organizations (NBCOs), savings and credit associations (SCAs), and insurance firms accounted for almost 12.7 percent of total financial sector assets and 7.2 percent of GDP.

[11] The 2022 budget included MDL 1.8 billion (0.7 percent of GDP) to mitigate the impact of increase in gas prices.

about 40 percent of GDP in 2015, with the exception of an increase in 2020 due to the pandemic-induced increase in borrowing and the denominator effect from the economic contraction. The strong rebound in economic activity in 2021 has contributed to a decline in PPG debt to about 31 percent of GDP. Two-thirds of PPG debt is external and held mainly by multilateral and bilateral donors, and is mostly medium- and long-term debt and on concessional terms. One-third is domestic debt, of which 30 percent is long-term debt securities (government securities with maturity longer than one year). Other domestic marketable debt is mainly short term and held by the banking system.

Figure 2: Evolution of public debt, 2010–2021 (% of GDP)



Source: Joint IMF-World Bank DSA

Table 1: Key macroeconomic indicators, 2019–2025

	2019	2020	2021	2022	2023	2024	2025
Real economy							
Nominal GDP (MDL, billion)	210.4	199.7	241.9	274.7	299.6	327.9	359.1
Real GDP (percent change)	3.7	-7.4	13.9	-0.4	2.7	4.2	5.0
Per Capita GNI (US$, Atlas Method)	4580	4560					
Contributions:							
Consumption (percentage points of GDP)	*2.9*	*-6.3*	*13.2*	*1.1*	*3.4*	*4.0*	*4.1*
Gross investment (percentage points of GDP)	1.8	-0.9	5.7	*-0.3*	*1.0*	*1.2*	*1.9*
Net exports (percentage points of GDP)	*-1.0*	*-0.1*	*-5.0*	*-1.2*	*-1.9*	*-1.3*	*-1.0*
Exports (percent volume change)	8.2	-9.6	17.5	0.8	4.1	4.3	5.9
Imports (percent volume change)	6.2	-5.0	19.2	2.0	4.6	3.9	4.3
Unemployment rate (ILO definition) (percent)	5.1	3.8	3.3				
GDP deflator (percent change)	5.4	5.4	6.3	13.9	6.4	5.1	4.3
Consumer price index (CPI) (average) (percent change)	4.7	4.1	5.1	24.7	7.8	5.5	4.9
Fiscal Accounts							
Expenditure (percentage of GDP)	31.4	36.7	33.9	37.0	36.7	36.6	36.5
Revenues (percentage of GDP)	29.9	31.4	32.0	30.3	31.7	32.2	32.4
General government balance (percentage of GDP)	-1.4	-5.3	-1.9	-6.7	-5.0	-4.4	-4.1
Public and publicly guaranteed debt (eop) (percentage of GDP)	27.6	33.7	31.2	37.6	40.2	42.3	42.1
Selected Monetary Accounts							
Base money (M1, percentage change)	8.8	29.7	10.0				
Credit to non-government (percentage change)	11.5	10.3	21.0				
Interest (key policy interest rate) (percentage)	5.5	2.7	6.5				
Balance of Payments							
Current account balance (percentage of GDP)	-9.3	-7.9	-11.7	-13.0	-12.2	-10.6	9.9
Imports (percentage of GDP)	55.4	51.4	58.0	61.6	64.2	63.6	63.4
Exports (percentage of GDP)	30.6	27.9	30.7	31.7	35.6	36.1	36.2
FDI (percentage of GDP)	3.9	1.3	1.7	0.5	1.5	1.5	1.7
Remittances (percentage of GDP)	15.2	15.7	14.6	14.7	15.2	15	14.9
Gross reserves (US$, millions) eop	3060	3784	3902				
In months of next year's imports	6.2	5.7	5.5				
Percentage of short-term external debt							
External debt (percentage of GDP)	68.9	73.5	66.1	68.8	73.8	75.6	73.0
Terms of trade (percentage change)	-4.1	-0.5	14.8	-2.3	-2.5	0.1	0.2
Exchange rate (MDL/US$, average)	17.6	17.3	17.7				
Nominal GDP (US$, billion)	12.0	11.5	13.7	13.8	13.8	14.5	15.3

Source: World Bank calculations.

Table 2: Key fiscal indicators for the public sector, 2019–2025 (% of GDP)

	2019	2020	2021	2022	2023	2024	2025
Total revenues (and grants)	29.9	31.4	32.0	30.3	31.7	32.2	32.4
Tax revenues	27.8	29.5	29.4	28.4	29.8	30.5	30.7
Personal income tax	1.9	2.1	2.1	2.1	2.1	2.2	2.3
Corporate income tax	2.6	2.6	2.5	2.3	2.4	2.5	2.5
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Value added tax	9.6	9.9	10.5	9.8	10.4	11.2	11.3
Excises	3.0	3.2	3.1	3.0	3.2	3.3	3.3
Taxes on international trade	0.9	1.0	0.9	0.9	1.0	1.0	1.0
Social benefits	8.7	9.6	9.0	9.1	9.4	9.2	9.2
Other	0.9	0.9	0.9	0.9	1.0	0.8	0.8
Non-tax revenues and other revenues	1.4	1.5	1.5	1.3	1.3	1.2	1.2
Grants	0.8	0.3	1.0	0.6	0.6	0.5	0.5
Expenditures	31.4	36.7	33.9	37.0	36.7	36.6	36.5
Wages and compensation	7.4	8.6	7.8	7.9	7.8	8.0	8.1
Goods and services	5.7	6.5	6.9	7.7	7.3	7.2	7.1
Interest payments	0.8	0.9	0.8	1.1	1.5	1.1	1.0
Subsidies	2.1	2.8	1.5	1.9	1.7	1.6	1.6
Social benefits	10.6	12.5	11.7	12.8	13.3	12.7	12.7
Other current expenses	1.4	1.5	1.6	2.1	1.6	1.7	1.6
Nonfinancial assets	3.3	3.7	3.6	3.5	3.5	4.3	4.4
Primary balance	-0.7	-4.5	-1.0	-5.6	-3.5	-3.3	-3.1
Overall balance	-1.4	-5.3	-1.9	-6.7	-5.0	-4.4	-4.1

Source: World Bank calculations.

Table 3: Balance of payments financing requirements and sources, 2019–2025 (US$ million)

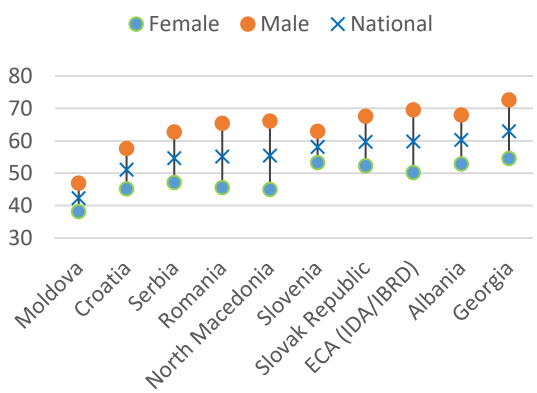
	2019	2020	2021	2022	2023	2024	2025
Financing requirements	**1,468**	**1,305**	**2,015**	**2,233**	**2,099**	**1,976**	**1,985**
Current account deficit (incl. errors and omissions)	1,112	906	1,595	1,792	1,664	1,532	1,508
Private debt amortization	136	177	181	185	189	193	198
Public debt amortization	220	222	239	256	246	251	279
Financing sources	**1,468**	**1,305**	**2,015**	**2,233**	**2,099**	**1,976**	**1,985**
FDI	468	152	239	65	203	224	252
Portfolio investments (net)	5	1	4	3	3	3	3
Private external debt disbursements	876	1,230	1,496	944	1,578	1,752	1,595
Public external debt disbursements	234	625	532	658	405	539	338
Change in reserves (- increase)	-60	-637	-206	601	-37	-489	-147
Other capital flows (net)	-55	-66	-50	-38	-53	-53	-56

Source: World Bank calculations.

16. **The labor market has recovered from its COVID-19-induced low but remains structurally weak.** At 40 percent, the employment rate recovered in the fourth quarter of 2021 to return to its 2019 level. However, at a mere 42 percent of the working-age population, labor force participation remains exceptionally low. This results in high out-migration and migration intentions, both of which are symptomatic of an economy with chronically low labor demand and limited availability of good jobs.

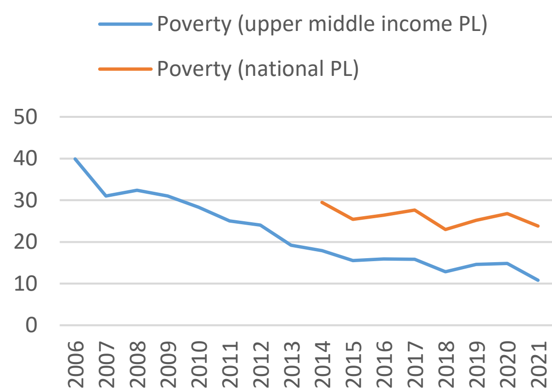
17. **The sharp rise in energy and food prices exacerbated by the war in Ukraine are projected to have increased poverty in Moldova.** Wages grew by 7 percent in real terms in 2021, driven by strong wage growth in the health, social work, information, communication, and financial services sectors. Minimum pensions almost doubled as of October 2021, significantly increasing disposable incomes for pension-receiving households, which were among the poorest in Moldova. As a result, poverty — based on the upper middle-income country poverty line of US$5.5 a day — is projected to have decreased from 14.8 percent in 2020 to 10.9 percent in 2021. Overall, Moldova has achieved strong poverty reduction over the past two decades, though the pace of poverty reduction has significantly weakened since 2015. For 2022, the sharp rise in energy tariffs and food prices is expected to negatively affect the pace of poverty reduction. The war in Ukraine is further intensifying these pre-existing price pressures, which will adversely impact the purchasing power of households. The impact of the war is also projected to have increased the poverty rate in Moldova by 2.4 percentage points relative to a pre-crisis projection, based on the upper middle-income poverty line of US$5.5 per day. As a result, Moldova is expected to remain one of the poorest countries in Europe and slow its convergence with European standards of living.

Figure 3: Labor force participation rate, 15+ percentage



Source: WDI, 2021.

Figure 4: Poverty, based on international and national poverty rate, percentage



Source: HBS, 2006–2020. WB staff calculations.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **The war in Ukraine is expected to have a substantial impact on the Moldovan economy.** While there is a high level of uncertainty related to the socio-economic ramifications in Moldova, the war in Ukraine is expected to have a substantial impact through the trade and remittances channels, as well as high energy prices and financial uncertainties. Projected GDP growth for 2022 is expected to be downgraded by 4.3 percentage points from the pre-war forecast (from 3.9 percent to -0.4 percent). The

significant negative impact on private consumption, investment, and exports is partly compensated by a large compression in imports, which represent more than 60 percent of GDP, and by one of the largest fiscal responses in the history of the country. Growth is expected to rebound slowly to 2.7 percent in 2023 and 4.2 percent in 2024. Reduced household purchasing power due to higher energy and food prices, together with depressed consumer confidence given the mounting uncertainties, is expected to severely affect private consumption. However, the measures taken by the Government in 2021 on minimum pensions and indexation, together with social protection expected to be provided by the Government, and higher remittances receipts from the EU, will mitigate the full impact of the war on the households. Remittances in Moldova have been resilient and countercyclical at times of crisis even when GDP in host countries decelerated, as witnessed during the COVID19 pandemic. Investment activity is also expected to moderate as the conflict unfolds and monetary conditions tighten.

Table 4: Differences between the forecast prepared in October 2021 and in April 2022

	2022			2023		
	Oct.2021 Forecast	Current Baseline	Difference	Oct. 2021 Forecast	Current Baseline	Difference
Real economy						
Real GDP (percent change)	3.9	-0.4	-4.3	4.4	2.7	-1.7
Total Consumption (percentage points of GDP)	3.6	1.1	-2.5	4.5	3.4	-1.1
Gross investment (percentage points of GDP)	2.4	-0.3	-2.7	3.0	1.0	-2.0
Net exports (percentage points of GDP)	-2.0	-1.2	0.8	-3.1	-1.9	1.2
Consumer price index (average) (percent change)	5.0	24.7	19.7	5.0	7.8	2.8
Fiscal Accounts (percent of GDP)						
Expenditure	34.3	37.0	2.7	33.6	36.7	3.1
Goods and services	6.1	7.7	1.6	6.1	7.3	1.2
Transfers	2.2	3.0	0.8	2.2	3.2	1.0
Revenues	30.8	30.3	-0.5	30.7	31.7	1.0
Tax revenues	29.0	28.4	-0.6	30.5	29.8	-0.7
Primary balance	-2.8	-5.6	-2.8	-1.4	-3.5	-2.1
Overall balance	-4.2	-6.7	-2.5	-2.9	-5.0	-2.1
Balance of Payments						
Current account balance (percent of GDP)	-8.9	-13.0	-4.1	-9.3	-12.2	-2.9
Exports (percent volume change)	7.6	0.8	-6.8	7.5	4.1	-3.4
Imports (percent volume change)	6.3	2.0	-4.3	7.6	4.6	-3.0
FDI (percent of GDP)	3.6	0.5	-3.1	3.4	1.5	-1.9

Source: World Bank calculations.

19. **The disruption of trade routes is expected to affect trade in 2022.** Although the direct exposure in terms of exports from the Russian Federation and Ukraine is below 15 percent, a large part of Moldova's logistics infrastructure relies on Ukrainian networks to connect the country with the rest of the world. The preferred route to and from Poland, Germany, Belarus and the Baltic States currently transits through the west of Ukraine, while trade with North America, the Middle East and Asia is mainly shipped from the port of Odessa. Most of the transport of freight is by truck and only 15 percent is by freight railway. Therefore, while trade routes can be adjusted, an increase in transportation costs can be expected. Imports are expected to be affected more directly, as Moldova imports about 42 percent of its food from Ukraine[12]

[12] On March 9, 2022 the Ukrainian Government imposed a ban on exports of key agriculture products, including wheat, corn, grains, salt, and meat.

and the Russian Federation, while it imports 100 percent of its gas from the Russian Federation. The current account deficit is expected to widen in 2022 and stay above the pre-pandemic level in the medium term.

20. **High inflation is expected to persist throughout 2022 and remain well above the central bank's target.** Inflationary pressures are expected to persist due to higher international prices, particularly for energy, food and commodities, and the disruption of trade routes. For 2022, average inflation is projected to rise to 24.7 percent yoy,[13] before slowly receding back toward the inflation target in 2023, under the assumption of a moderation in commodity prices. Inflation is expected to remain anchored around the NBM's inflation target of 5 percent (+/-1.5 percent) in 2024 and beyond. The NBM will face policy trade-offs between controlling inflation and supporting economic activity, as well as potential pressure on the domestic currency, while maintaining healthy levels of international reserves. The exchange rate, which remained relatively stable throughout 2021, lost around 3 percent of its value since the beginning the war in Ukraine, amid pressures related to the potential spillover effects for Moldova. Both the exchange rate and international reserves are expected to weaken in 2022, reflecting an increase in imports coupled with subdued capital inflows due to the heightened uncertainty.

21. **While banks are well-capitalized, direct exposure to the Russian Federation and Ukraine is limited, and the NPL ratio is low, the war could have an impact on the banking sector through the deteriorating asset quality and liquidity.** The Moldovan banking sector displays sufficient liquidity, capital, profitability, and operational capabilities following the sector's clean-up in the aftermath of the 2014 banking crisis. Sanctions on Russian banks are expected to have limited repercussions in Moldova, as these banks do not have any subsidiaries or branches in Moldova and financial linkages have shrunk since 2014.[14] A risk to financial stability stems from the potential deterioration in asset quality. While the share of NPLs out of total loans has been on a downward trend since 2016 (currently amounting to 6.4 percent of total loans), it is high in select banks. Moreover, asset quality may suffer from the reverberating effect on the economy of the unfolding crisis in Ukraine, especially since households and firms may still be recovering from the COVID-19 crisis. The existing high share of foreign currency loans (26.1 percent of the total) also represents an indirect credit risk in the case of a significant depreciation of the domestic currency. Nonetheless, the degree of coverage with NPL provisions is adequate (the coverage ratio was 67.2 percent in December 2021). Finally, high unofficial euroization remains a tail risk for financial stability, particularly if the population starts increasing its holdings, given the uncertainty of the unfolding war.

22. **The fiscal position is expected to weaken due to the inflow of refugees and the economic impact of the conflict.** Already before the war in Ukraine, Parliament had approved the 2022 Budget Law with a deficit of 6.0 percent of GDP to support investments and the ambitious reform program. Additional

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[13] With the arrival of large numbers of refugees from Ukraine and the potential of shortages of food and medicine products, the authorities have imposed price controls, by extending further the list of socially important goods whose sale prices are subject to a markup control over the production cost (Gov Decision 774/2016 as amended by the Commission for Exceptional Situations, No. 2/2022) and export bans on key products, such as wheat, corn, sugar, sunflower and medical products.
Source: *https://www.legis.md/cautare/getResults?doc_id=93417&lang=ro* and *https://cancelaria.gov.md/sites/default/files/dispozitie_cse_2_25.02_v.2.pdf.*

[14] Nevertheless, certain links may subsist, as certain Moldovan banks continue to use certain Russian banks as correspondents, especially in Russian ruble, but also in other currencies.

spending of about 1.3 percent of GDP[15] is expected to protect firms from the economic impact of the war in Ukraine and to protect households' disposable income from increasing energy and food prices. The net fiscal cost of the direct support for refugees is estimated to be 0.4 percent of GDP,[16] as development partners are expected to partially support the Government's efforts.[17] The additional spending is expected to be partially compensated by the containment of the wage bill, spending reprioritization, and efficiency gains. At the same time, revenues are expected to be less than originally projected due to the impact of trade disruption, and reduced consumer and business confidence. However, the authorities are committed to tackling the multitude of tax expenditures, especially those related to value-added tax (VAT) and strengthening tax administration. As a result, the overall deficit is expected to be 6.7 percent of GDP. Possible contingent liabilities, including from the historical commercial debt of Moldovagaz to Gazprom (US$700 million) and social pressures, will need to be monitored closely. Moreover, 152,000 Moldovan migrants who live in Ukraine and 294,000 who live in the Russian Federation[18] may return to Moldova, as the private sector in these countries is taking a toll due to the war and the associated sanctions. Most of these migrants are unskilled workers and may require temporary access to the Moldovan social protection system.

23. **The general government financing needs are expected to increase but to be fully covered by the increase in financing from bilateral donors and multilaterals.** Moldova has no access to international capital markets and relies on financing from the domestic market, together with bilateral donors and multilaterals. The authorities entered 2022 with exceptional cash buffers (MDL 11.9 billion or 4.9 percent of GDP). As of April 8, 2022, MDL 4.3 billion (1.6 percent of GDP) of freely usable funds remain in the central government's single treasury account. However, rising concerns from the public over the war in Ukraine have led to a steady withdrawal of bank deposits, reducing commercial banks' appetite to finance government securities despite relatively large liquidity reserves. As a result, the Ministry of Finance was not only unable at the end of February 2022 to place additional domestic debt, but it also faced difficulties in rolling over some of its domestic debt coming due. This was despite the increase in the interest rate to 15 percent for six-month bonds and 16.5 percent for one-year bonds to spur the appetite for investing. The authorities decided to stop new domestic bond issuances and only roll over the existing debt. The resulting increase in the financing gap is expected to be covered by the coordinated financial assistance from international partners, including by an augmentation of the IMF Extended Credit Facility (ECF) and Extended Fund Facility (EFF), EU financing, and budget support from the World Bank, and other bilateral donors.

[15] In addition to the MDL 1.8 billion (0.7 percent of GDP) already in the 2022 budget.

[16] The authorities estimate about MDL 0.6 billion (0.2 percent of GDP) of direct costs of providing humanitarian support for refugees from Ukraine (including shelter, medicine, food, income, and additional wage costs of frontline staff) for the first six months of the crisis.

[17] Moldovan families, which received refugees from Ukraine, are expected to receive a lump sum of MDL 3,500, while refugees with a temporary residence in refugee camps are expected to receive MDL 2,200 per month under the program of the Office of the United Nations High Commissioner for Refugees (UNCHR) and the World Food Program (WFP). UNICEF announced that it will cover the expenses of books and other schooling materials for children. Bilateral donors are also expected to provide fuels, food, medicines, tents, etc.

[18] https://moldova.iom.int/sites/g/files/tmzbdl266/files/documents/MOLDOVA%20GMDAC%20Report%202021.04.22_rev-IOM_cleaned.pdf.

Table 5: General Government financing requirements and sources, 2021–2024 (US$ million)

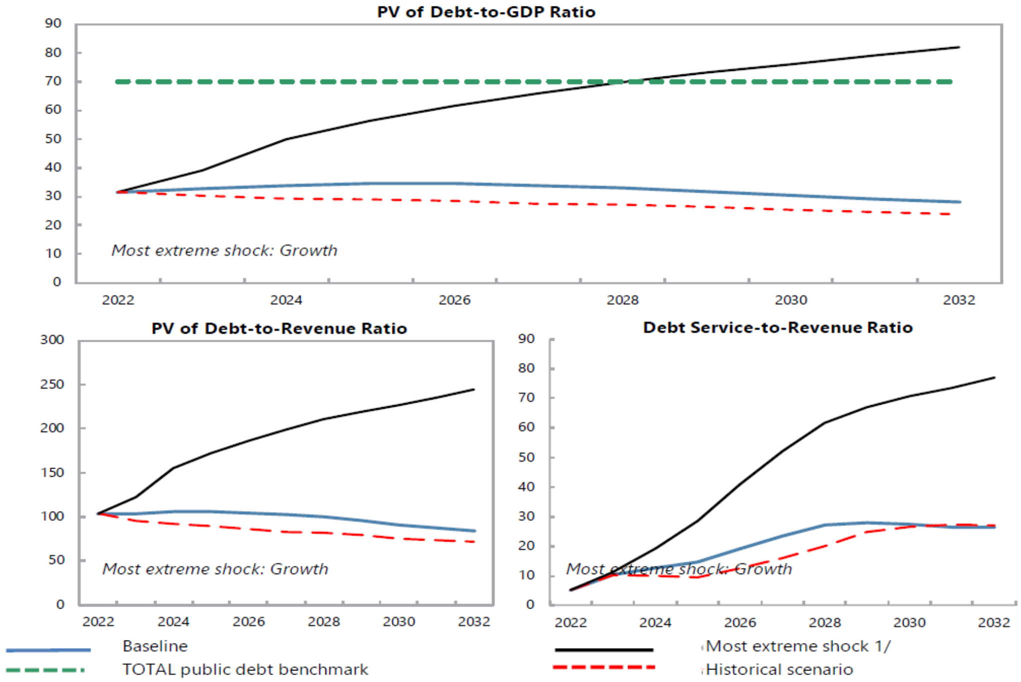
	2021	2022	2023	2024
Financing Requirements	2011	2358	2060	2174
Overall Deficit	258	920	683	607
Amortization on external PPG debt	178	134	127	174
Amortization of domestic PPG debt	1575	1304	1250	1393
Financing Sources	2011	2358	2060	2174
Domestic borrowing	1800	1304	1480	1912
Privatization and others 1/	278	47	144	33
Total external financing 2/	532	658	405	539
Of which budget support from official creditors 3/	371	578	370	385
Cash balance (- increasing cash balance)	-599	349	31	-310
Memo				
Cash Balance (end of year)	671	322	291	601

Source: World Bank calculations.
1/ Includes privatization receipts and other one-off items
2/ Includes Bilateral and Multilateral Loans for project financing
3/ Includes SDR allocation in 2021 (around US$236m)

24. **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 at about 42 percent of GDP in 2024, total public debt is expected to stabilize at around 40 percent of GDP, when fiscal support retrenches and growth dividends are generated from the planned reforms. The present value of 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. 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. These outcomes hinge on continued prudent fiscal policy, together with sound macroeconomic policy, as envisaged under the IMF ECF/EFF Program.

25. **Public debt is, however, subject to vulnerabilities from different shocks, particularly lower-than-expected growth.** Adverse and prolonged spillovers from the war in Ukraine, coupled with a resurgence of COVID-19 variants, present a significant risk to the outlook on debt. The present value of public debt-to-GDP ratio exhibits a sustained breach of the threshold under the real GDP growth shock scenario. However, it should be noted that Moldova has experienced strong economic rebounds from the growth shocks in the past, including in 2021 following the COVID-19-induced recession in 2020. External debt is also vulnerable to exchange rate depreciation. Moreover, potential rollover risks are substantial from the increasing stock of private sector debt. These risks are partly mitigated by private sector savings abroad.

Figure 5: Indicators of public debt under alternative scenarios, 2022–2032



Source: Joint IMF-World Bank DSA

26. **The macroeconomic policy framework, anchored to the IMF Program, is adequate for this proposed operation despite the prevailing economic conditions.** The impact of the war in Ukraine is expected to put pressure on Moldova's short-term economic recovery, weakening the country's fiscal position both from a decline in revenues due to the lower economic activity, and from an increase in social spending to mitigate the impact of the shock. However, 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. The financial sector entered the crisis well-capitalized. On the fiscal front, despite the weakening of the fiscal position in the short term, 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.

27. **Nevertheless, there are high macro-fiscal risks surrounding the implications of the war in Ukraine, both globally and in Moldova.** Major risks stem from the uncertainties over gas prices, as the new five-year long-term contract signed in November 2021 with Gazprom has a tariff adjustment that moves in tandem with international prices. Furthermore, the potential settlement of the historical commercial debt between Moldovagaz and Gazprom, which was estimated by Gazprom to be around US$700 million (5 percent of GDP), represents a contingent liability for the Government with an impact on financing needs, depending on the repayment schedule that is agreed upon. Moreover, 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 US$1.3 billion in debt coming due this year, representing about 9 percent of GDP. These risks are partially mitigated by Moldova's commitment to a full adherence to the IMF Program, which serves as a macro-fiscal anchor.

Moreover, the Government's additional financing, emerging from the impact of the war, is expected to be provided by bilateral donors, the IMF and multilateral development banks, which are also providing extensive technical assistance to strengthen the capacity of the administration.

2.3. IMF RELATIONS

28. **On December 21, 2021, the IMF Board of Executive Directors approved an economic reform Program under the Extended Credit Facility (ECF) and the Extended Fund Facility (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 have requested an increase of access under the ECF/EFF program by about US$267 million (SDR 195 million) to help Moldova cope with the impact of the war in Ukraine and surging international energy and food prices. The augmentation request was approved by the IMF Executive Board on May 11, 2022.

3. GOVERNMENT PROGRAM

29. **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 raising investment, increasing 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 human and social capital; (iii) honest and efficient institutions; and (iv) healthy environment. The 2021–2022 government program identifies four priority areas in the short term: (i) health crisis management; (ii) judiciary and anti-corruption reform; (iii) social protection for vulnerable groups; and (iv) jobs creation and increase in average salary; (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 Government has moved quickly in some areas, while progress in others has been slower. For example, in fighting poverty and social inequities, concrete measures were introduced, including an increase of 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, there are pending issues in the social assistance targeting mechanism. Particular emphasis is required to reform the justice sector, which is recognized as a gargantuan, long-term and effort-consuming endeavor. While the Government has launched a medium-term prioritization and sequencing exercise for investment programming purposes, this endeavor was affected by the recent steep increase in energy prices and more recently by the large influx of refugees.

30. **The Government of Moldova acted promptly to the unprecedent social and economic challenges arising from the war in Ukraine**. It declared a State of Emergency, allowing Ukrainian citizens fleeing the war to enter Moldova only with their national ID, and providing shelter, food, medical and

educational services, and livelihoods. With the support of external development partners two cash assistance programs were launched: (i) refugees with a temporary residence in refugee camps are expected to receive a monthly allowance of MDL 2200 and (ii) around two thirds of the refugees are hosted by Moldovan households and will be receiving a one-time support of MDL 3500. To facilitate the access to various goods, Moldovan government simplified the procedures for importing humanitarian products. The Government has also taken immediate actions to integrate refugees from Ukraine into the Moldovan economy and guarantee to school-age refugees access to schools. As of beginning of April, already around 2000 children were registered in Moldovan schools. The Government is also taking measures to mitigate the potential economic impact of the war in Ukraine on households due to the expected increase in food and gas prices.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

31. **The programmatic DPO series aims to help the authorities: (i) mitigate the impact of the war in Ukraine on refugees and households; and (ii) build resilience and enhance competitiveness to reduce vulnerabilities to future shocks.** The program development objective of the DPO is fully aligned with the Government's priorities. At the current economic juncture, it is paramount that measures aimed at mitigating the impact of the war in 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 and 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 productivity, growth, and job creation. In this context, the DPO complements other 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 SCD Update and consistent with the ongoing IFC CPSD. For instance, in the energy sector, the World Bank complements the EU MFA and EBRD program by focusing on renewable energy.

32. **The design of this DPO incorporates lessons learned from the 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 the previous DPOs, which were stand-alone, highlight the importance of accompanying 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 the previous experience. This operation complements, for instance, the Micro,

Small, and Medium Enterprises (MSMEs) competitiveness project (P177895) and Water Security project (P173076).

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

33. **Pillar 1: Mitigate the impact of the war in Ukraine on refugees and households.** The integration of refugees from Ukraine is important not only from a solidarity standpoint but also for social cohesion in the host communities. In this context, measures supported in PA1 grant Ukrainian citizen the right to work in Moldova without the need to follow a standard procedure for foreigners, while PA2 grants the school-age refugees from Ukraine access to education institutions. Moreover, to mitigate the immediate impact of higher energy prices, PA3 supports an increase in the cold season benefit (APRA) and expands the coverage of vulnerable families, while improving the design of the main social assistance program for future shocks.

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.*

34. **Rationale.** As of April 22, 2022, almost 430,000 refugees from Ukraine have entered Moldova, of whom more than 91,000 have remained in the country. The large majority of the refugees who decided to stay are women with children. To facilitate their integration into the Moldovan society and increase their self-reliance, hereby reducing the pressure on public finances, the Moldovan Government has granted Ukrainian refugees the right to work in Moldova without the need to go through the usual procedures for foreigners seeking employment in Moldova. Facilitating integration is particularly important for women, who face multiple challenges. Household and childcare responsibilities, gender wage discrimination, sexual harassment and safety concerns, and cultural barriers apply to women both among the refugees and in the host communities. The absence of family and social networks that existed in their home countries further limits the refugee women from working because of a lack of childcare support. Barriers to employment correspond to a higher risk of poverty for female-headed refugee households.[19] Female-headed households also generally have lower incomes as they earn less than male-headed households.[20] In addition**,** the labor market in Moldova displays employment segregation, resulting in women resorting to typically unpaid, informal, and low-return jobs.[21]

35. **Substance of the prior action.** Provision No.1 of the State of Emergency Commission allows Ukrainian citizens and third-country nationals in Ukraine fleeing the war to enter Moldova only with their

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[19] Hanmer, Lucia, Diana J. Arango, Eliana Rubiano, Julieth Santamaria, and Mariana Viollaz (2018). How Does Poverty Differ Among Refugees? Taking a Gender Lens to the Data on Syrian Refugees in Jordan. Washington, DC: World Bank.

[20] United Nations High Commissioner for Refugees, United Nations Children's Fund, and World Food Programme (2019). Vulnerability assessment of Syrian refugees in Lebanon—VASyR.

[21] *https://statistica.gov.md/public/files/publicatii_electronice/Educatia/Educatia_editia_2021.pdf* - Education in Republic of Moldova, 2021.

national ID, waiving the need for the usually required official travel documentation such as an international passport. Provision No.4 of the State of Emergency Commission grants Ukrainian citizens[22] the right to work in Moldova without going through the standard procedures for employing foreigners in Moldova, including obtaining temporary residence for the purpose of work. Ukrainian citizens can enter into individual contracts with any economic agent operating in Moldova, without official documentation from the National Employment Office. While this measure is expected to improve the economic resilience of refugees from Ukraine, reduce the need for social assistance, and help with their social integration, it can also benefit Moldovan firms by alleviating the skills shortage (in the 2019 Enterprise Survey, firms in Moldova highlighted an "inadequately educated workforce" as their single main obstacle[23]), thereby increasing tax revenues.

36. **Expected results.** The result indicator is "Share of employed Ukrainian women as percentage of total refugees' employment contracts registered at the National Employment Agency". Beyond the timeframe for the evaluation of this DPO, these measures are expected to better integrate the refugees into the economy and society, helping social cohesion and economic resilience.

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.*

37. **Rationale.** The war in Ukraine has interrupted schooling for a significant share of Ukraine's children and risks compounding the learning losses caused by school closures during the COVID-19 pandemic. On the day the invasion began, a two-week school break was declared, and classes have since resumed online. Nevertheless, not all of the estimated 48,000 children who fled the war in Ukraine and are currently in Moldova have access to remote learning in a meaningful manner, either due to the lack of suitable electronic devices, lack of a stable internet connection, or both. Also, while valuable, remote learning does not provide the full, physical interaction with peers that is important for socio-emotional wellbeing. Access to schooling is expected to provide a sense of normality to children in a period of upheaval and chaos, and to support their psychological wellbeing and learning, which is in turn important for their future productivity and earnings. PA2 is also expected to result in important synergies with PA1, as providing access to education to Ukrainian children will facilitate the labor market integration of their parents, who are mainly women and primary caregivers. Care responsibilities are one of the main drivers of the specific vulnerabilities of refugee women and is among the main reasons behind the women's low labor force participation.[24]

38. **Substance of the prior action.** Provision No. 7 grants access to public services, including education, to refugees from Ukraine with official national documents. Order nr. 178 of the Ministry of

[22] Third country refugees will be required to obtain temporary residence for the purpose of work.
[23] 2019 Enterprise Survey (*https://www.enterprisesurveys.org/en/data/exploreeconomies/2019/moldova*).
[24] UN and World Bank (2021) Moldova Comprehensive Gender Assessment.

Education and Research grants access to school-age refugees from Ukraine to educational institutions for primary and secondary education. Procedures that guide refugees on how to enroll in educational facilities including pre-schools have been published on the Ministry's website.

39. **Expected results.** The result indicator is "Share of refugees from Ukraine (age 6–18 years) requesting education services enrolled in the educational system".

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 the 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).*

40. **Rationale.** As a small open economy, Moldova is vulnerable to a variety of shocks that have materialized with regular frequency in the past. Strengthening the means-tested programs is a priority for Moldova to improve protection of the vulnerable population through better efficiency given the current food and energy crisis, and to enhance resilience against future shocks. Since the introduction of the Ajutor Social program (as well as an add-on of the Heating Allowance program) in 2010, the targeting of social benefits to the poorest has improved. Nevertheless, fragmented programs and targeting errors persist, and coverage of the poor remains low (in 2020, the latest year for which data are available, less than 9 percent of the poor were covered by Ajutor Social). At the same time, the existing categorical transfers leak about 37 percent of the total social assistance spending, equivalent to about 2 percent of GDP (excluding social pensions), to people in the top three quintiles (HBS 2019). Subsequent policy measures have tilted social protection further toward the categorical approach, diverting significant resources away from the more cost-effective means-tested programs. At the same time, the income eligibility threshold of Ajutor Social is relatively low, resulting in low coverage, and beneficiaries very often remain poor due to its limited generosity. The add-on program to Ajutor Social—cold season benefit (APRA)—is the main instrument to support the vulnerable during the heating season. It uses the same basis for eligibility except with a larger income threshold, although the benefit is flat for the duration of the heating season.

41. **Substance of the prior action.** The prior action focuses on both short-term measures to mitigate the immediate impact from the increase in gas prices during the winter months of 2021-2022 and long-term measures to strengthen the main social protection programs to mitigate the impact of future shocks. Government Resolution No. 332 increases the cold season benefit (APRA) from MDL 500 to MDL 700 per family per month. It also increases the income threshold for APRA to expand the coverage of vulnerable families (with an income of up to 2.6 times the guaranteed minimum income-GMI) by 88,000. While some categories have benefited more from the mitigation measures provided by the Government (i.e., pensioners, female-headed households, and urban families) than others (i.e., families with more than three children, rural families in the south), the measures on APRA are expected to have reduced the poverty rate by about 1.5 percentage points from an increase of 6.7 percentage points in the absence of

mitigation measures to an increase in the poverty rate of 5.2 percentage points[25] after the mitigation measures.[26] The Law aims to strengthen the main social protection programs to mitigate the impact of future shocks by further increasing and linking the GMI for children to the subsistence minimum for children. This change will support families with children, which are among the most vulnerable to shocks and were relatively less well protected from the gas crisis in the winter of 2021. The legislation also increases the "income disregard", which is the level of income that is not considered to compute the benefits. Changes in income disregard will also have a component that depends on the number of children in the family. Moreover, since the larger energy costs translate into a larger subsistence minimum, the supported measures will also allow the incorporation of seasonal fluctuations in the amount of the basic needs as the subsistence minimum is recalculated.

42. **Indicative trigger for DPO2.** 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.

43. **Expected results.** The result indicator is "Number of female-headed families receiving social assistance". 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.

44. **Pillar 2: Build resilience and enhance competitiveness to reduce vulnerability to future shocks.** Given Moldova's reliance on food and energy imports, and its vulnerability to an increasing frequency of natural disasters exacerbated by climate change, there is an urgent need to build resilience. Enhancing private sector competitiveness and diversification is critical to both help reduce the vulnerabilities to shocks and productivity, growth, and job creation. In this context, PA4 supports the increase of the capacity of renewable energy generation, including sustainable biofuels and biogas, to help with energy security, reliability, and affordability, while protecting Moldova's forests. PA5 supports the strengthening of the regulatory framework of the private insurance industry in line with EU Directives to help rebuild trust in the industry by households and firms that need help to be better protected from unexpected shocks. PA6 supports the measures to establish the NFRLD to provide more efficient, effective, and transparent support to infrastructure projects, including in the areas of water and sanitation, given the high frequency of droughts and flooding. PA7 supports the reorganization of the railway sector to play an increasing role in successfully integrating firms, consumers, inputs, and goods within the country with regional and global markets in a more sustainable manner. Also strategic for Moldova's competitiveness in an era of rapid digitalization, as witnessed during the pandemic, PA8 supports the digitalization of public services to contribute not only to competitiveness by reducing the cost of dealing with public administration but also by reducing spatial disparities in public service delivery.

[25] World Bank calculations.

[26] In addition to APRA, the package of measures included a compensation to the tariff of natural gas differentiated by consumption: MDL 4.3 for the first 50 cubic meters and MDL 3.2 above the first 50 cubic meters. The package also included a compensation of 80 percent to the heating tariffs up to MDL 815 per month. The overall package is expected to have reduced poverty by 3 percentage points from an increase by 6.7 percentage points in the absence of mitigation measures to an increase in poverty of 3.7 percentage points after the mitigation measures.

***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.*

Rationale. The increase in the capacity of renewable energy generation can contribute to address energy security, reliability, and affordability, which continue to be a central concern, as witnessed recently during the 2021 gas crisis. Moldova remains highly dependent on energy imports and relies on single-source suppliers of gas and electricity. Imports represent more than 80 percent of total energy needs and 100 percent of the demand for gas. Moreover, Moldova's most important power plant, Moldavskaya GRES, relies on imported gas from the Russian Federation as a source for electricity generation. It accounts for about 85 percent of the total generation capacity in Moldova. Efforts have been made to synchronize the Moldovan power systems with the EU. As of March 16, 2022, Moldova's power system achieved the first phase of synchronization with the European association for the cooperation of transmission system operators (TSOs) for electricity (ENTSO-E) following on the success of Ukraine, with a connection to the Romanian power system through a 400 kV transmission line (Vulcanesti-Isaccea). Moreover, Moldova's power system is today fully integrated with Ukraine's with no direct connection to Russia or Belarus. Optimizing interconnections through enhanced connectivity with Romania will, however, require a few years to become operational. At the same time, the potential of renewable energy (RE) remains untapped, and its greater use would reduce the country's dependence on costly fuel imports, boost productivity and competitiveness of firms, and enhance reliability and affordability for households, while also helping to achieve the GHG emissions target set by the updated NDC (NDC2). While the renewable generation installed capacity increased by 33 percent (+40.6 MW) in 2021, it accounts for a negligible share of energy in the Moldovan energy system. The total capacities of RE are currently 110 MW, with an additional at 10 MW net metering (totaling 120.5 MW).[27]

45. **Substance of the prior action.** The Government Decision No. 401 approves the capacity limits, maximum quotas and capacity categories in the area of electricity from RE sources for the period 2021–2025, allowing for an increase in the share of RE in electricity and transport. More specifically, the Government Decision brings four major changes. First, it increases the capacities and targets for all RE sources to 400 MW for all types of RE. Second, the new provision removes the limits[28] set for large-scale non-intermittent renewable installed capacities to attract more investment on these flexible sources. In addition, the value of awarded auctions will not be lower than the feed-in tariff offered to smaller investments. Third, the Government Decision provides more granular targets for non-used space of roof-top solar photovoltaic installations, allocating up to 50 MW. Previously, developers had the option of installing solar photovoltaic installations of up to 1 MW wherever they wished, including on the prime agricultural land. Indirectly, this measure will help maintain productive land for agriculture and avoid unsustainable competition with food production. Fourth, the Government Decision focuses on the sustainable use of biomass, allowing investments in all types of installation using biomass for energy generation, except for biomass originating from forestry products, with the aim of protecting forests from

[27] According to the Ministry of Infrastructure and Regional Development (MIRD), 73.4 MW is from wind energy, 24.5 MW is from solar PV, 16.25 MW is from hydro, and 6.35 MW is from biogas.
[28] The previous regulation dispatchable sources could be bided at a cap of 1 MW (e.g., cogeneration units on biomass and biogas could be awarded at separate installments up to 1 MW).

logging. The Government Decision represents an important first regulatory step towards the use of RE sources, stimulating investment in the sector both for small and large produces.

46. **Indicative trigger for DPO2.** The Recipient has adopted a regulatory framework for auctions and tenders in renewable energy. The indicative trigger is a subsequent second critical regulatory step to ensure that large energy producers enter the market with certainty about the contractual conditions.

47. **Expected results.** The result indicator ”Amount of renewable energy capacity auctioned by the Government to the private sector“. Beyond the timeframe for the evaluation of this DPO, the reform is expected to create a more diversified and competitive sector, helping improve energy security, reliability, and affordability.

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.*

48. **Rationale.** A financially sound and well-regulated private insurance sector can play a crucial role in the resilience of households and firms by better protecting them from unexpected shocks. However, the weak financial situation of private insurance companies in Moldova, with a significant number of insurers at high risk of insolvency and showing signs of weak capacity to pay claims, has now been further exacerbated by the COVID-19 pandemic. Moreover, gaps in the legal system have allowed the presence of undercapitalized firms to grow and endangered Moldova's membership of the European Green Card system, due to lack of proper supervisory enforcement mechanisms. Recent efforts by the regulator have helped exit a number of insolvent insurers from the market. Furthermore, Moldova has undertaken[29] steps to align its legal framework in the area of insurance with the respective EU acquis, particularly to transpose the provisions of the European Union Solvency II Directive.[30] However, further efforts are required to make sure that the remaining insurance companies possess sound capital and reserves. Strengthening the regulatory framework of private insurance, establishing prudential requirements, and risk management standards in line with the EU will help rebuild trust in the industry by households and firms, and offer consumers a wider range of reliable insurance products.

49. **Substance of the prior action.** The Law on Insurance and Reinsurance activity partially transposes the provisions of the EU Directive 2009/138/EC by establishing new capital and prudential requirements, governance, and risk management standards for insurance companies. Insurers will be required to develop sound policies in the most critical areas, such as corporate governance, compliance, internal audit and actuarial function. The Law requires insurers to make information about their solvency and financial conditions public, thereby aiming at building transparency and trust. It also introduces mechanisms for managing crises in the insurance industry, by means of early intervention and resolution in entities that are under financial stress. The Law on Motor Third Party Liability Insurance (MTPL) transposes the

[29] EU-Moldova Deep and Comprehensive Free Trade Agreement 2014.
[30] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

provisions of the EU Directive 2009/103/EC on insurance against civil liability for the use of motor vehicles.[31] It aims to align the Moldovan MTPL legislation to the EU acquis and facilitate the adoption of sound MTPL insurance practices by the Moldovan insurance industry. The Law introduces changes to the framework that regulate the MTPL insurance contract, the general and special conditions of insurance coverage, the timeframe, and the modalities in which damages should be paid. The Law also establishes new liability limits for different types of damages, as well as requirements for the pricing of insurance policies based on actuarial calculations. The regulator will have the right to object to pricing that is set below the levels required by the actuarial methodology approved by the regulator, thereby preventing unsustainable price competition on the market that weakens the financial position of all players.

50. **Indicative trigger for DPO2.** The Recipient has adopted legislation to expand 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. The indicative trigger is expected to complement the prior action by addressing regulatory bottlenecks that prevent easy access to finance.

51. **Expected results.** The result indicator is "Share of insurance companies that comply with the new capital requirements". Beyond the timeframe for the evaluation of this DPO, the reform will help rebuild trust among households and firms in the insurance industry to help them to be better protected from unexpected shocks.

Prior Action 6. *The Recipient has (i) taken measures to establish the National Fund for Regional and Local Development to support local development infrastructure projects, including in 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.*

52. **Rationale.** The 2021 SCD Update documents large spatial gaps in access to key infrastructure in Moldova. For instance, only 55 percent of rural Moldovans are connected to the public water network, compared with over 93 percent of urban Moldovans. Similarly, close to 90 percent of urban Moldovans have a toilet with water inside their dwelling, compared with less than 40 percent in rural areas. Financing for infrastructure investment of local authorities has been so far channeled through four funds, namely the National Fund for Regional Development, the National Ecological Fund, the Road Fund, and the National Fund for Development of Agriculture and Rural Environment. The fragmented system has yielded large inefficiencies, duplications, a track record of weak implementation, and a lack of coordination and untransparent practices. Given the large financing gaps, the establishment of a consolidated financing framework could help channel resources more efficiently and effectively to where infrastructure needs are most pressing.

[31] Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability.

53. **Substance of the prior action.** Law No. 27/2022 on the establishment of the NFRLD brings under the same instrument and management all regional and local development projects. The Government Decision Nos. 152/2022, 172/2022, and 271/2022 adopt a number of new regulations to improve the management of regional and local investment projects. The proposed rules and procedures cover the core public investment management stages: (i) competitive project selection and control procedures; (ii) the use of the Treasury Single Account; (iii) ex-post monitoring and evaluation; and (iv) annual audits of the Fund and publication of the audit reports. The internal audit unit of the implementing Agency will assess the effectiveness of internal controls, which will ensure accountability in addition to the oversight provided by the National Council. The budget of the Fund and the Agency will be included in the state budget and become a part of the general budgeting process.

54. **Indicative trigger for DPO2.** The Recipient has adopted a framework to reform the water and sanitation services. The indicative trigger is expected to complement the prior action by focusing on the reform water and sanitation services that are key areas for development and poverty reduction in Moldova.

55. **Expected results.** The result indicator is ”Share of local infrastructure projects financed through the National Fund for Regional and Local Development”. Beyond the timeframe for the evaluation of this DPO, the reform will contribute to enhancing the efficiency of local infrastructure funding. Predictable transfers will permit the Ministry of Infrastructure and Regional Development and relevant authorities to manage investment projects strategically.

***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)and the delegation of the market regulation competencies to the autonomous public authority in the field of competition and (ii) 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.*

56. **Rationale.** In Moldova, a landlocked country with a small domestic market, an efficient railway sector can play a key role in successfully integrating firms, consumers, inputs, and goods within the country,[32] and with regional and global markets in a more sustainable manner. However, decades of neglect of investment and maintenance, poor governance, and misallocation of resources [33] that favored other transport modes have resulted in railway transport that has become increasingly uncompetitive compared with road transport and other European railways. The rail freight market share is currently only 15 percent, down from 63.8 percent in 2007, while the passenger rail market share has 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

[32] 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.
[33] During 2007–2016, the Government spent more than €1 billion on the maintenance and rehabilitation of its road network, while railway infrastructure rehabilitation received less than €150 million.

Moldova, CFM) is key to reversing these trends and supporting the competitiveness of the economy,[34] while providing a reliable and safe mode of transportation for passengers.

57. **Substance of the prior action.** The reform consists of the adoption of a new Railway Transport Code, which partially transposes the provisions of the EU Railway Directives. The Railway Transport Code aims to support the reorganization of the railway sector along the following main principles: (i) the institutional separation of the railway infrastructure management from the provision of freight and passenger transport services; (ii) the setting up of independent companies for freight and/or passenger transport; (iii) the opening of the railway transport market for competition between multiple railway operators (state-owned and private); (iv) establishing the Railway Authority, the Railway Supervision Council, and an Independent Authority for Railway Accidents Investigation; and (v) the transparent involvement of the state in the financing of railway infrastructure and the public passenger service. The Railway Transport Code introduces two instruments—Multi-Annual Contracts for Railway Infrastructure (MAIC) and Public Service Contracts (PSC)—used by the EU countries to transfer public funds to railway company(ies) for: (i) maintenance and investments in railway infrastructure; and (ii) the provision of passenger transport services that are not commercially viable but nonetheless necessary for social reasons. While the Railway Transport Code lays out the legal basis for the reform, the Government Decision approving the related action plan sets out a number of necessary steps critical to the successful implementation of reforms by elaborating: (i) safety standards and targets; acceptance of safety management systems; safety supervision, inspections; 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.

58. **Indicative trigger for DPO2**. The Recipient has adopted complementary bylaws to further support the railway sector reorganization and harmonize the national legislation with the EU standards. The indicative trigger is a subsequent second critical regulatory step to further unbundle the sector.

59. **Expected results.** The result indicator is ”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 Recipient has facilitated access to and improved the quality, efficiency and transparency of public services for business and citizens, including the digitalization of services for business life-cycle, (registration, reorganization, trading, 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.*

[34] Many market participants could benefit from an efficient railway sector: (i) exporters, 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.

60. **Rationale.** As witnessed during the COVID-19 pandemic, the digitalization of services can provide continuity of service delivery and easy access, regardless of the location of the beneficiary. It can also substantially reduce the burden for businesses when interacting with the public administration. However, the provision of public services for businesses and citizens also shows a certain degree of fragmentation and duplication of legal norms governing public services, a lack of clarity in defining the basic notions, and a lack of a unified approach to regulation, which should lay down the rules of conduct for beneficiaries and public service providers, as well as their rights and obligations. To address these shortcomings, a framework law regulating social relationships in the field of public services was needed, taking into account the rights and obligations of participants in these relationships, and the constant expansion of the range of public services offered to citizens and businesses. Moreover, the level of quality and efficiency of public services in Moldova required modernization, as well as digitalization, to ensure social and territorial equity. In addition, financial intermediation—already low before the pandemic—has become even more constrained due to regulatory barriers preventing the development of more innovative financial services that would have allowed more access to finance, including: (i) excessive personal data protection regulations, which impose, for example, burdensome requirements for businesses in terms of registration and clearances from data protection authorities; (ii) the collection of multiple and paper-based customer consents for data storage, processing and exchange; and (iii) the inability to conclude contracts remotely.

61. **Substance of the prior action.** Law No. 234/2021 on Public Services is aligned with the EU recommendations on the modernization of public services, including their digitalization, to increase the efficiency of providing services to citizens and reduce the costs of conducting economic activities. The Law aims to ensure the accessibility and quality of services, and the efficiency of their provision, while achieving a balance between meeting the interests of the beneficiaries of public services and the public interest. This Law establishes the regulatory framework with the basic principles regarding the provision of public services, the competencies and responsibilities in the field of public services, the requirements for the provision of public services, the modalities and forms of their provision, and the rights and obligations of beneficiaries and providers of public services. Law No. 175/2021 amends relevant normative documents, introducing changes to the Law on Personal Data Protection, the Law on Credit Information Bureau, the Company Law, the Law on Real Estate Cadaster, the Law on Electronic Communications, the Civil Code, the Labor Code, and a number of other laws. The amendments align with the EU General Data Protection Regulation (GDPR) to remove a number of excessive administrative procedures, while maintaining the protection of consumer rights. The amendments also enable the remote signing of labor contracts, recognize the electronic signatures issued by European authorities, and facilitate more digital interactions between the public and private sectors.

62. **Indicative trigger for DPO2.** The Recipient has supported the digitalization of services to MSMEs by introducing e-commerce, e-notary and Public Depository of Financial Statements. The indicative trigger is expected to complement the prior action by focusing on important aspects of the digitalization agenda to support MSMEs.

63. **Expected results.** The result indicator is "Share of new active G2B digital services envisaged by the reform."[35] Beyond the timeframe for the evaluation of this DPO, the reform expects that the interactions

[35] Government to Business (G2B) digital services are those that comply with the provisions of the Law No. 234.

between the public and private sectors will become increasingly digital and easy. Streamlined personal data protection legislation will reduce the administrative burden for MSMEs and, enable the digitalization of financial and other services.

Table 6: DPO prior actions and analytical underpinnings

Prior Actions	**Analytical Underpinnings**
Pillar 1	
Prior action #1	Forcibly Displaced – Toward a Development Approach Supporting Refugees, the Internally Displaced and their Hosts (2017); A Development Approach to Conflict-Induced Internal Displacement (2021)
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)
Prior action #3	2021 SCD Update; 2021 Policy Notes; Public Finance Review; Strengthening Social Assistance in Moldova (P172598); Supporting Social Protection in Eastern Europe (P177564)
Pillar 2	
Prior action #4	2021 SCD Update; 2021 Policy Notes; Moldova Power System Development Project (P160829)
Prior action #5	2021 SCD Update; 2021 Policy Notes; Moldova Financial and Private Sector Monitoring/Technical Assistance - (P170841)
Prior action #6	2021 SCD Update; 2021 Policy Notes; 2020 Moldova Water Security Diagnostic and Future Outlook
Prior action #7	2021 SCD Update; 2021 Policy Notes; 2020. Tracks from the Past, Connectivity for the Future: Revitalizing Moldova's Railway Sector.
Prior action #8	2021 SCD Update; 2021 Policy Notes; IFC Investment Climate Reform Project

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

64. **Reforms supported by the DPO are aligned with the priorities of the current Country Partnership Framework (CPF) and respond to the immediate and emerging needs of the authorities to mitigate the impact of the war in Ukraine on refugees and households.** The World Bank Group is developing a new CPF, which is expected to build on the current CPF (Report No. 115716-MD, discussed by the Board on July 27, 2017) and which was extended to FY18-FY22 by the Performance and Learning Review (PLR) (Report No. 144635-MD), informed by the priority areas identified by the 2021 SCD Update. The 2021 SCD Update identifies two cross-cutting priorities: (i) strengthening the rule of law and institutional capacity, including at the sectoral and subnational levels; and (ii) strengthening resilience particularly to climate change. The 2021 SCD Update also identifies three sectoral priorities, namely: (i) improving the business environment to enhance competitiveness; (ii) reorienting public finance to support a new growth model; and (iii) improving resilience, efficiency and equity in service delivery.

65. **The design of the operation reflects the lessons learned in the implementation of previous operations, as also reflected in the CPF PLR**. The PLR 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 budget support is essential for effective leverage over key policy issues and immediate response. This DPO complements the ongoing and planned World Bank-funded IPFs 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

66. **The Government 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. The adoption of Government Decisions and regulations have received comments and opinions from international partners, and where appropriate, this has resulted in adjustments and specifications. The reform supported under PA3 benefited over the past several months from the sustained dialogue with relevant stakeholders, the Minister of Labor and Social Protection and the Head of Parliamentary Commission on Social Policy. The consultative process ensured strong ownership of the changes to the design of the Ajutor Social program and the forming of a broader vision for the strengthening of the social assistance system in Moldova. The Law on Insurance and Reinsurance and Law on MTPL Insurance (PA5) went through 18–24 months of public consultation with the industry, business associations, public authorities and international organizations. In drafting the Law on Public Services (PA8), the State Chancellery benefited from the assistance of the EU Project "Support in the process of reforming public administration" and the support of I.P. "Public Services Agency" and I.P. "Electronic Government Agency", as public institutions responsible for implementing state policy in the field of provision and modernization of public services. The Law was finalized taking into account the recommendations received from stakeholders after its public consultation.

67. **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, anti-corruption framework, and fiscal and financial governance. The EU Macro-Financial Assistance (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 renewable energy while the EU MFA focuses on energy security. Finally, AFD is expected to provide parallel financing to this operation by supporting the prior actions related to renewable energy and railways. The operation also relates to some areas identified by the ongoing 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

68. **The policy measures supported by this DPO are expected to have neutral or positive social and distributional effects.** The policy measures in the first pillar of this operation aim to connect refugees from Ukraine in Moldova to employment opportunities and key public services, and alleviate the adverse social and economic impacts caused by the war in Ukraine (e.g., PA3 on the reform of the social assistance). These reforms are expected to have immediate positive social and distributional impacts. The reforms supported in the second pillar aim to build resilience against increasingly frequent crises, which disproportionately affect the poor and vulnerable, and strengthen the competitiveness of Moldova's economy. The reforms under Pillar 2 are unlikely to have significant distributional impacts in the timeframe of this DPO series. PA7, which starts the process of reforming the railway sector, focuses on safety regulation, track access charging, or a multi-annual infrastructure contract, and does not require, prescribe or recommend labor rightsizing in the sector. The expected individual impacts of prior actions under the specific pillars are described below and detailed in Annex 4.

69. **Measures supported by PA1 and PA2 will benefit refugees fleeing the war in Ukraine by facilitating their integration into the labor market and access to key public services in Moldova**. Though aimed at refugees, the measures are expected to also benefit the Moldovan economy, as research suggests that facilitating migrants' or refugees' access to formal labor markets: (i) helps limit increases in informal, lower productivity work, and makes more effectively the use of the skills that migrants bring with them; (ii) serves to boost self-reliance and reduce the scope for criminal or anti-social behavior; and (iii) helps increase tax revenues and reduce the need for subsidized access to social services. 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. Concerns about the possibility of displacement of Moldovan workers or return migrants by better-skilled refugees from Ukraine will need to be monitored to avoid a possible negative social backlash. PA3 on the reform of social protection is expected to have positive social and distributional effects, even in the short term, as the strengthening of the main means-targeted social assistance programs will help mitigate the impact of the increase in gas and food prices.

70. **The reforms supported in Pillar 2 on building resilience and enhancing competitiveness are expected to have neutral distributional impacts**. PA4 supports reforms to diversify Moldova's energy sources by increasing the capacity of renewable energy. In particular, PA4 mandates the use of rooftops for PV solar energy, which aims to maintain productive land for agriculture and food production (previously, developers had the option to install PV installations up to 1 MW where they preferred, including on prime agricultural land). While promoting the use of biomass for energy generation, PA4 limits the type of biomass that can be used, effectively banning the use of forestry biomass for electricity generation, which will help protect forests on which some rural communities depend on. The reforms under PA4 do not affect poor rural households that use firewood for heating, as the reform aims at electricity generation from biomass. PA5 on the insurance sector is expected to strengthen households' financial resilience, and limit the risk of large and unexpected out-of-pocket payments by improving the financial footing of the industry. PA6 will bring all regional and local infrastructure projects under a newly

established National Fund for Regional and Local Development, with operational rules aligned with international good practices. Harmonized management will increase the efficiency and effectiveness of public spending on local infrastructure, which is expected to improve access to key infrastructure for rural and poor communities, especially regarding water and sanitation. PA7 on the reorganization of the railway sector presents an opportunity to enhance competitiveness, develop a green transportation system, and provide safer and affordable railway transport services. A better-performing railway sector is expected to decrease transport costs and boost trade, with positive effects on job creation and household incomes. The successful implementation of the framework for the public service contract for passenger operations, which has been designed to ensure both affordability of transportation for the less well-off and protect the minimum service of certain unpopular passenger routes, is expected to limit any adverse distributional effects. PA7 focuses on safety regulation, track access charging, or a multi-annual infrastructure contract, and does not require, prescribe or recommend labor rightsizing in the sector. Finally, PA8 supports reforms related to the digitalization of services, both for businesses and citizens, contributing not only to competitiveness by reducing the cost of dealing with public administration but also to reducing spatial disparities in public service delivery, as services can be remotely accessed in places where physical service delivery facilities are lacking. As witnessed during the pandemic, the digitalization of services can provide service continuity and ease of access regardless of the location of the beneficiary.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

71. **The proposed prior actions are expected to be either neutral or beneficial for the environment.** PA4 on diversifying energy sources and increasing the capacity of renewable energy, including the sustainable use of biomass, will contribute to further reducing GHG emissions and fulfilling Moldova's obligations under the Paris Agreement. PA6 on establishing the National Fund for Regional and Local Development to support infrastructure projects for local development (especially water and sanitation projects) is expected to provide a series of environmental benefits, such as improved water supply and reduction and prevention of water course pollution. At the same time, supported projects in this sector may cause some adverse impacts associated with necessary civil works and wastewater treatment operations if adequate environmental requirements are not put in place: dust, noise, and soil and water pollution, solid wastes, adverse impacts on flora and fauna, etc. In addition, it could also lead to occupational health and safety impacts and risks if environmental requirements are not considered in project design and during project implementation. PA7 on the reorganization of railways will help indirectly make this sector more competitive and attractive for users, gradually shifting the mix of transport both for passengers and freight away from road transport. The expected individual impacts of prior actions under the specific pillars are described in Annex 4.

72. **Moldova's legal and administrative framework related to conducting Environmental and Social Assessment (ESA), 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 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 project "Moldova Water Security and Sanitation Project", which will be implemented under the auspices of 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

73. **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.

74. **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.** Moldova continues to have 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 significant achievement in realizing a comprehensive medium-term expenditure framework. Moldova has a broad array of information regarding the finances of budgetary central government. The Parliamentary Oversight over the external public audits produced by the Court of Accounts has been enhanced through creating a new dedicated Public Finance Control Commission. As a result, the PEFA assessment for Moldova preliminarily conclude that PFM arrangements and systems have improved since the previous PEFA assessment in 2015, as evidenced by overall strong scores in ratings of budget comprehensiveness, transparency of public finances, policy-based fiscal strategy and external audit. Areas 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 (FMI, UNDP, the EU and others) in several of these areas, including reforms in tax and customs administration, budget planning and execution, and capital investments.

75. **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 the Parliament and published on June 26, 2020, entering into force in June 2021 (12 months after the date of publication).

76. **The updated IMF Safeguards Assessment of the NBM was completed in 2020, 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, 2020,[36] 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 Government's commitment and plans for reform are adequate to support this operation, the audit of the dedicated account is not required for the operation.

77. **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 dedicated 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 Government will provide a confirmation to the World Bank that the funds have been received by the dedicated account in the NBM. The Government 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 Government 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.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

78. **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 DPO1 program through the regular supervision missions and the preparation of the DPO2. 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

[36] Audit opinions by an independent auditor were rendered on the 2020 annual consolidated financial statements of the NBM. The opinion included the balance sheet as on December 31, 2020, 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. The opinion revealed that "the accompanying financial statements present fairly, in all material respect, the financial position of the Bank as of 31 December 2020, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards."

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 the Annex 1.

79. **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 Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. 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 World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

80. **The overall risk rating for the proposed operation is assessed as high.** The risk ratings are included in the table below. The war in Ukraine, along with the COVID-19 pandemic and energy crisis, has brought multiple risks to Moldova. Triggered by the war, the global economic landscape has deteriorated drastically. There is a high degree of uncertainty surrounding the war, its socio- economic ramifications in Moldova, and the timing of when the transmission channels of the crisis, for example., trade, finance, commodity prices, would start to normalize globally.

81. **Political and Governance.** Sustaining broad political support for the ambitious economic program is critical to ensure its effective implementation. In the current context, social pressure, which might emerge from the impact of high food and fuel prices, combined with the strong polarization of the electorate, could hinder the support for the Government's agenda, despite the Government maintaining its strong commitment to the program. These risks are partially mitigated by reforms supported by this operation, in particular the social protection measures, and the Government's commitment to protect the most vulnerable by embedding fiscal buffers in the amended budget. Moreover, the government holds a solid majority in the Parliament and is implementing a targeted approach to sequencing the key reforms, helping contain the political risks. Nevertheless, the residual risk remains substantial.

82. **Macroeconomic.** High macroeconomic risks stem mainly from the vulnerability of the economy to the war in Ukraine, through the trade, and remittances channels as well as energy and food prices. Substantial fiscal costs can emerge if these risks materialize, particularly those related to the energy and food prices. These risks are partially mitigated by Moldova's macroeconomic policies and commitment to a full adherence to the fiscal and monetary targets of the IMF program, which serves as a macro-fiscal anchor, as well as to the reforms supported by this operation in the areas of social protection. 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 rollover debt. These risks are partially

mitigated by the fact that most of the government's expected financing is expected to be provided by bilateral donors, the IMF and multilateral development banks. Nevertheless, the residual risk remains high. Moreover, vulnerability of the economy, agriculture in particular, to extreme weather conditions is high given the increase in the frequency of floods and droughts.

83. **Sector Strategies and Policies** High risks in sector strategy relate to the fact that prior actions on railway, energy, insurance and water are part of comprehensive and complex reforms. Enacting laws and setting up regulatory frameworks are important and necessary first steps, but consistent implementation is required to translate legislations into effective implementation. In this context, an effective role of Calea Ferată din Moldova (CFM) in railways, National Energy Regulatory Agency (ANRE) in energy, the National Committee for Financial Stability (NCFS) and Apele Moldovei in water sector are critical to ensure the reforms bring results. The strong commitment of the Government to reforms and coordinated support by the international community are key mitigating factors. Also, the design of the operation, as a programmatic series of two DPOs, together with technical assistance, is expected to mitigate these risks.

84. **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. Moreover, successful implementation will require collaboration across different agencies, which have large differences in capacity with some of them just undergoing a reorganization of their competences. 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). Also, the design of the operation, as a programmatic series of two DPOs, together with technical assistance, is expected to mitigate these risks.

85. **Other.** Other risks stemming from the uncertainty related to the COVID-19 pandemic are considered to be moderate. There is a high degree of uncertainty as to the potential arrival of new and more dangerous COVID-19 variant and to its economic, social, and health ramifications.

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 and Triggers		Results		
Prior Actions under DPO 1	**Triggers for DPO 2**	**Indicator Name**	**Baseline**	**Target**
Pillar 1--- Mitigate the impact of the war in Ukraine on 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.		Results Indicator #1: Share of employed Ukrainian women as percentage of total refugees' employment contracts registered at the National Employment Agency.	Zero percent (2021)	75 percent (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.		Results Indicator #2: Share of refugees from Ukraine (age 6-18 years) requesting education services enrolled in the educational system.	Zero percent (2021)	85 percent (2024)
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	(Indicative) Trigger #1: The Recipient has adopted complementary by-laws to update normative aspects of the Ajutor Social implementation in accordance with the	Results Indicator #3: Number of female-headed families receiving social assistance.	26,784 (2021)	32000 (2024)

Prior Actions and Triggers		Results		
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 the 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).	amended law, including the subsistence minimum guaranteed for children and the amount of additional income disregard per child.			
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.	(Indicative) Trigger #2: The Recipient has adopted a regulatory framework for auctions and tenders in renewable energy.	Results Indicator #4: Amount of renewable energy capacity auctioned by the Government to the private sector.	Zero MW (2021)	40 MW (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.	(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.	Results Indicator #5: Share of insurance companies that comply with the new capital requirements.	60 percent (2021)	100 percent (2024)
Prior action #6: The Recipient has (i) taken measures to establish the National Fund for Regional and Local Development 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,	(Indicative) Trigger #4: The Recipient has adopted a framework to the reform water and sanitation services.	Results Indicator #6: Share of local infrastructure projects financed through the National Fund for Regional and Local	Zero percent (2021)	80 percent (2024)

Prior Actions and Triggers		Results		
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.		Development.		
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.	(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	Results Indicator #7: 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 life-cycle, (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.	(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.	Results Indicator #8: Share of new active G2B digital services envisaged by the reform.	Zero percent (2021)	75 percent (2024)

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes Ad-Hoc Review Under the Extended Credit Facility and Approves Augmentation and Rephasing of Access under the Extended Credit Facility and Extended Fund Facility Arrangements for the Republic of Moldova

May 11, 2022

- The war in Ukraine has resulted in significant spillovers to Moldova.
- The resources under the augmented ECF/EFF arrangements will help Moldova address challenges emanating from the war in Ukraine, catalyze additional external financing, protect social cohesion by providing needed budget support to most vulnerable, and give further impetus to crucial reforms. The immediate disbursement of US$144.81 million will help Moldova meet pressing war-induced balance of payments financing needs.
- The program is on track. The goals of addressing balance of payment imbalances, and strengthening governance and institutional frameworks, through an ambitious set of structural reforms are maintained.

Washington, DC – **May 11, 2022:** The Executive Board of the International Monetary Fund (IMF) today concluded the ad-hoc review *[1]* under the Extended Credit Facility and Extended Fund Facility Arrangements *[2]* for the Republic of Moldova. This makes about USD 144.81 million (SDR 108.15 million) available to Moldova immediately. The Board also approved an augmentation and rephasing of access under the program. Total access under the blended 40-month ECF/EFF arrangements approved in December 2021 (*Press Release*) was increased by about US$260.11 million (SDR 194.26 million) to about US$795.72 million (SDR 594.26 million).

Spillovers from the war in Ukraine are affecting the Moldovan economy through a variety of channels, including a spike in energy prices, trade disruptions, adverse confidence effects and the indirect impact of sanctions. Already over 400,000 refugees fleeing the conflict have entered Moldova—by far the highest of any country in per capita terms. Most have since transited to other countries, but about a quarter of them currently remain there. The immediate disbursement under the blended ECF/EFF program will allow Moldova to meet pressing balance of payments financing needs arising from these shocks.

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

“Directors commended the Moldovan authorities for their strong commitment to the Fund-supported program, despite the challenging environment. They noted that the spillovers from the war in Ukraine and international sanctions on Russia and Belarus, including trade disruptions, higher and more volatile energy prices, and the continued influx of a large number of refugees, have had a significant impact on Moldova and led to increased external financing needs.

"Directors commended the authorities for their swift response to the crisis and welcomed the adoption of the supplementary budget to protect vulnerable households, accommodate refugees' humanitarian needs and maintain social cohesion. Directors underscored, however, that strong implementation of the budget envelope as well as careful monitoring of revenue performance and additional spending pressures will be important going forward. They emphasized that fiscal plans should remain anchored by a strong commitment to debt sustainability. Given the unprecedented uncertainty, Directors welcomed the authorities' readiness to activate contingency plans, should risks materialize.

"Directors welcomed the central bank's decisive policy response to increased inflation. They noted that the financial sector has remained resilient despite temporary liquidity pressures. Going forward, Directors broadly concurred that careful calibration of monetary tightening to balance financial stability and growth objectives will be important. Further foreign currency interventions should be limited to preventing a disorderly adjustment of the exchange rate and curbing excess exchange rate volatility.

"Directors commended the authorities for keeping the program on track and making good progress on key reforms, including the completion of structural commitments on fiscal governance, financial sector oversight, oversight of state-owned enterprises, and strengthening anti-corruption legislation. They encouraged continued progress on the integrated taxpayers' register, the comprehensive tax expenditure analysis, and the reinforcement of the National Bank of Moldova's institutional autonomy.

"Directors emphasized that the program's focus on addressing significant governance weaknesses and institutional vulnerabilities remains critical and welcomed the emphasis on strengthening the rule of law and financial supervision. They noted that continued reforms under the program—if appropriately sequenced and resolutely implemented—will boost productivity, unlock private investment and support inclusive, sustainable growth."

[1] An ad hoc review between scheduled reviews can be requested by a program country when the increase in the underlying balance of payments problems cannot await the next scheduled review. Ad hoc reviews require an assessment by the IMF Executive Board that the program is on track to achieve its objectives.

[2] 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.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

GUVERNUL REPUBLICII MOLDOVA — GOVERNMENT OF THE REPUBLIC OF MOLDOVA

Nr. 01-79-4678 Chişinău 12.05.2022

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

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 proposed Moldova Emergency Response, Resilience, and Competitiveness Development Policy Operation (DPO) for US$159.24 million, the first in a series of two operations.

The Government appreciates the long-standing partnership and cooperation with the World Bank. This letter presents the country's context for this operation and summarizes critical aspects of the program that we are committed to undertaking to mitigate the impact of the war in Ukraine on refugees and households, build resilience and enhance competitiveness to reduce vulnerabilities from future shocks.

The goal of the Government is to fundamentally transform the country, so that people can fulfill their aspirations and potential in a society where institutions work on behalf of and in the interest of their citizens. The Government program identified five priority areas: (i) health crisis management; (ii) judiciary and anti-corruption reform; (iii) social protection for vulnerable groups; (iv) jobs creation and increase in the average salary and (v) the resumption of external financing. In this context, the Government has introduced several concrete measures aiming at fighting poverty and social inequities by increasing the minimum pension, creating a social assistance program for the elderly, and increasing monthly allowances for children. It also advanced the judiciary and anti-corruption agenda.

The Government's efforts to support the ambitious reform program were taken up first by the gas crisis and, then, by the unprecedented challenges of the unjustified war in Ukraine. The Republic of Moldova has stood with refugees from Ukraine. Now, we have to deal with a complex social and economic fallout of the conflict: interrupted supply chains, an anticipated reduction in remittances (especially from our diaspora in Russia), food and energy security risks, hybrid threats and – especially – further rise in prices which will further strain household budgets in a country

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where more than a quarter of the people are living in absolute poverty. These crises 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 supporting the convergence towards the European standard of living, and a high degree of social inclusion and cohesion in the society.

First, the gas crisis in the second half of 2021 had a substantial impact on the economy and households, with gas prices increasing by around 400 percent. The Government responded swiftly to mitigate the impact on the poor and the most vulnerable. It increased the cold season benefit (APRA) from MDL 500 to MDL 700 per family per month and its income threshold to expand the coverage of vulnerable families by 88,000. In addition, the package of measures included a progressive compensation to the tariff of natural gas differentiated by consumption: MDL 4.3 for the first 50 cubic meters and MDL 3.2 above the first 50 cubic meters. The package also included compensation of 80 percent of the heating tariffs up to MDL 815 per month.

Second, the large influx of refugees and the unfolding consequences of the ongoing war in Ukraine at the beginning of 2022 have the potential for overwhelming a small open economy like Moldova. As of May 11, about 89,800 persons who left Ukraine are still in the Republic of Moldova, almost half of them are children – out of a total of more than 458,000 who entered our country since February 24. Despite the country's limited resources, because of an unprecedented mobilization of Moldovan society – ranging from state institutions to NGOs and the business community – we were able to provide the refugees with decent conditions.

The Government of Moldova acted promptly in declaring the State of Emergency, allowing Ukrainian citizens fleeing the war to enter Moldova only with their national ID, and providing shelter, food, medical and educational services, and livelihoods. Moldovan authorities opened around 100 temporary centers for the refugees with a total capacity of around 10,000 places. With the support of main external development partners, two cash assistance programs were launched. One program is targeting refugees with a monthly allowance of MDL 2200. At the same time, around two-thirds of the refugees are hosted by Moldovan households and will be receiving one-time support of MDL 3500. The Government received from the population and external donors' grants and in-kind donations for managing the refugees' crisis. To facilitate access to various goods, the Moldovan government simplified the procedures for importing humanitarian products.

Against this backdrop, the proposed Moldova Emergency Response, Resilience, and Competitiveness Development Policy Operation (DPO) was structured to support the authorities' efforts to mitigate the economic impact of the war in Ukraine, while maintaining the momentum on the long-term agenda.

The Government has also taken immediate actions to integrate refugees from Ukraine into the Moldovan economy and guarantee school-age refugees access to schools. The State of Emergency Commission has granted Ukrainian citizens the right to work in Moldova without going through the standard procedures for employing foreigners in Moldova, including obtaining temporary residence for purpose of work (Prior Action1). Second, the State of Emergency Commission has also granted refugees from Ukraine access to public services, including education (Prior Action 2). As of May 11, more than 2100 children were registered in Moldovan schools. The Government of Moldova is committed to extending the state of emergency until the refugee situation improves and to working together with the World Bank to identify additional measures related to the integration of refugees from Ukraine that could be supported by the DPO2.

Moreover, the Government is taking measures to mitigate the potential economic impact of the war in Ukraine on households due to the expected increase in food and gas prices (Prior Action 3). The Government of Moldova is committed to continuing these efforts and welcomes the World

Bank's support with the DPO series in these areas. In particular, the Government is fully committed to enacting the Law to improve the targeted cash program „Ajutor Social" that was submitted to Parliament in April 2022. We are also committed to adopting a complementary Government Decree to further support the reform of main social protection programs.

While the Government remains committed to mitigating the impact of the war in Ukraine 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 programmatic DPO to accompany our efforts and commitments to strengthen the foundation for 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 continuing our efforts to build resilience and address energy security, reliability, and affordability by diversifying energy sources and suppliers, including by increasing the capacity of renewable energy generation (Prior Action 4). Our efforts to strengthen the financial sector that began in the aftermath of the 2014 banking crisis will continue to help households and firms access financial services with confidence and be better protected. These efforts include the strengthening of the regulatory framework for the insurance sector (Prior Action 5). While a transition period has been provided to allow insurers to adjust to the new regulatory framework during this period of heightened economic uncertainty, we are committed to fully implementing the reform including the transfer of the functions of supervisory authority to the National Bank of Moldova. Our efforts will also continue to implement the National Fund for Regional and Local Development (NFRLD), following international good practice in terms of public financial management, projects selection and implementation that would help provides reliable and affordable access to public infrastructure services, particularly for the family in rural areas, in a sustainable manner (Prior Action 6). We are also committed to advancing the competitiveness agenda to help diversify the economy and enhance its competitiveness while reducing vulnerabilities from future shocks. We are also committed to providing efficient, safe and reliable railway services by reorganizing the railway sector (Prior Action 7), and forcefully pursuing the digitalization agenda of public administration to address the existing administrative burden which weighs on government-to-business daily interactions (Prior Action 8). The Government of Moldova is committed to fully implementing these long-awaited reforms and welcomes the World Bank's support with the DPO series in these areas.

Let me take this opportunity, 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,

N. Gavrilița

Natalia GAVRILITA
Prim-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
Pillar 1		
Prior action #1	No	Yes, positive
Prior action #2	No	Yes, positive
Prior action #3	No	Yes, positive
Pillar 2		
Prior action #4	Yes. Positive indirect impacts due to the CO2 emission reduction	No
Prior action #5	No	Yes, positive
Prior action #6	Yes. Positive impacts due to improved water supply and sanitation and reduced water pollution. Supported projects in this sector may cause some indirect adverse impacts associated with necessary civil works and wastewater treatment operations if adequate environmental requirements are not in place: dust, noise and soil and water pollution; solid wastes; adverse impacts on flora and fauna; occupational health and safety impacts and risks; etc.	Yes, positive
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.	No
Prior action #8	No	No

ANNEX 5: DETAILED POVERTY AND SOCIAL IMPACT ANALYSIS

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.*

The invasion of Ukraine by the Russian Federation has fueled the largest migration flow in Europe since World War II, with Moldova heavily impacted. Since the start of the crisis, 430,000 refugees from Ukraine entered Moldova, and it is estimated that over 91,000 currently remain in the country (as of April 22, 2022). Prior Action 1 consists of provisions that address the most acute needs of Ukrainian citizens fleeing the war, focusing on both the short- and medium-term. In the short term, the Prior Action allowed Ukrainian citizens to enter Moldovan territory without official travel documentation (the national ID is/was sufficient), providing a safe haven to Ukrainian citizens and third country nationals fleeing the violence. To cater to the needs of Ukrainian citizens who plan to temporarily settle in Moldova rather than travel on to third countries, the Prior Action also simplifies Ukrainian adults' access to employment in Moldova.

While the provisions supported by this Prior Action benefit first and foremost place Ukrainian citizens fleeing the war, they could, in the longer term, also benefit Moldova. Recent studies have shown that facilitating migrants' access to formal labor markets (i) helps limit increases in informal, lower productivity work, and more effectively takes advantage of skills that migrants bring with them; (ii) serves to boost self-reliance and reduce the scope for criminal or anti-social behavior; and (iii) helps increase tax revenues and reduce the need for subsidized access to social services. The skills that refugees from Ukraine bring could be particularly relevant for Moldova, where an "inadequately educated workforce" is the main self-reported obstacle to private business operations (2019 Enterprise Survey). The possibility that refugees from Ukraine would displace Moldovan workers in the labor market is a risk that needs to be monitored and, if necessary, addressed to avoid a popular backlash against Moldova's open-door policy towards refugees from Ukraine. This risk is currently deemed minimal given the small number of refugees from Ukraine who have obtained employment in Moldova since the start of the war.

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.*

This Prior Action supports provisions and orders that provide school-age refugees access to educational institutions in Moldova, from primary school to university. While it is unclear how many families will opt to enroll their children in schools and universities in Moldova,[37] given the language barrier, the possibility of online learning provided by the education sector in Ukraine, and uncertainty over the duration of the war, providing the opportunity to enroll has various benefits, ranging from providing a sense of normalcy and stability to children fleeing war to facilitating the labor market integration of the children's caregivers, who are overwhelming female. In addition, returns to

[37] According to the Ministry of Education and Research, close to 1,800 Ukrainian children were enrolled in Moldovan schools by April 5, 2022 (*http://mts.gov.md/ro/content/numarul-copiilor-ucraineni-incadrati-sistemul-educational-al-republicii-moldova-este*).

education are substantial both in Moldova and Ukraine,[38] further highlighting the importance of remedying potential schooling interruptions.

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 the 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).*

This Prior Action supports reforms and actions that: (i) protected Moldovan households from an exceptional increase in energy prices during the 2021/22 heating season; and (ii) expand and strengthen Moldova's main means-targeted social assistance program to be better equipped to respond to future shocks. The sharp rise in gas prices since mid-2021 led to a 2.4-fold increase in household gas tariffs in Moldova, with knock-on effects on the price of district heating and electricity. In the absence of mitigation measures, these sharp increases in utility tariffs would have increased poverty by 6.7 percentage points in 2022, relative to a scenario of steady energy prices. The expansion of APRA, the cold-season benefit, reduced the increase in poverty by 1.4 percentage points, while the full response package, which included gas and heating subsidies, reduced the increase in poverty by three percentage points. The residual increase in poverty is expected to be highest among large households with several children, who are currently inadequately covered by Moldova's social assistance programs. In addition, the 2019 Fiscal Incidence Analyses showed that households with many children, who are among the most vulnerable in Moldova, are made worse off by Moldova's fiscal system, with poverty rates at consumable incomes being higher than poverty rates at market incomes[39].

The reforms supported by this Prior Action will increase coverage of Ajutor Social, Moldova's main means-targeted social assistance program, especially for families with children. First, an increase in income disregard for families with children will increase the amount of labor income families with children can earn while still be eligible for Ajutor Social. This measure will increase coverage of families with children and is also expected to strengthen incentives to work, as a higher amount of labor income will be discarded for the purposes of assessing eligibility for AS. Second, the increase in the child coefficient for calculating the household Guaranteed Minimum Income (GMI) will increase the GMI for families with children, expanding the number of families with children that are eligible for AS, as well as their benefit amounts. Together, these measures are expected to double the coverage of poor households with children (and increase overall coverage by 60 percent) and increase the targeting differential (a key indicator to assess coverage and targeting of social assistance programs, defined as coverage of the poor minus coverage of the non-poor) by 6 percentage points (or by 40 percent). Simulations show that expanding AS is a more cost-effective way of responding to energy price increases than near-blanket gas and heating subsidies (though on its own is not sufficient to offset large price increases).

Pillar 2: <u>Build resilience and enhance competitiveness to reduce vulnerability to future shocks.</u>

***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.*

[38] See Psacharopoulos G. and Patrinos, A. (2018). "Returns to Investment in Education. A Decennial Review of Global Literature". Policy Research Working paper 8402. Washington DC: The World Bank.
[39] Cojocaru, A., Matytsin, M. and Prohnitchi, V. (2019). Fiscal Incidence in Moldova: A commitment to equity analysis. Policy Research Working Paper 9010. Washington DC: The World Bank.

Currently, Moldova is fully dependent on a single supplier for energy provision, posing a real threat to the country's energy security. This has been aptly demonstrated by the recent spike in global energy prices, which has been aggravated by the invasion of Ukraine by the Russian Federation. Gas import prices in Moldova have increased four-fold since the first quarter of 2021, with substantial knock-on effects on household tariffs for gas and electricity. These tariff increases have prompted the government to establish measures to mitigate the welfare impacts on the population. The cost of these measures is expected to amount to approximately MDL 3 billion by the end of the current heating season (end of March 2022), representing over 1.2 percent of 2021 GDP and an important opportunity cost. In addition, simulations show that the measures have not been able to fully offset the welfare effects of higher energy tariffs, leading to a 3.7 percentage point increase in the national poverty rate (relative to a counterfactual of steady energy tariffs) and a larger increase for groups that were already poorer to begin with (large households with many children and households in the South).

The Prior Action supports reforms to diversify Moldova's energy sources by increasing the capacity of renewable energy. Despite having substantial capacity, power generation from renewables stand currently at only 65MW. By approving capacity limits and increasing quotas in the field of electricity from renewable resources, the prior action is expected to substantially increase power generation from renewables (to a targeted 400MW) and hence contribute to decreasing the dependence on the sole existing electricity generator. The Prior Action also mandates the use of rooftops for PV solar installations, hereby preserving land for agriculture and food production (previously, developers could install PV solar installations up to 1MW wherever they preferred, including on agricultural land). The Prior Action is unlikely to have negative distributional impacts. If competitive tenders for renewable power capacity were to eventually decrease tariffs, effects would predominantly benefit lower-income households given their higher spending on electricity as a share of total spending.

New biomass energy generation is likely to have other positive social impacts including relieving the pressure on forest timber and coal usage, which are traditional sources of energy in rural areas where most of the population lives and where the cost of natural gas is prohibitively expensive. The decree excludes the generation of biomass energy from firewood from forests. Wheat straw waste and other agricultural byproducts are renewable energy sources with short-to medium-term potential. The country produces between 0.7 and 1 million metric tons of wheat grain per year, resulting in an equal amount of wheat straw. This biomass represents an available, substantial and reliable source of renewable energy. The ban of forestry biomass for energy generation applies only to its large-scale use to generate electricity. The reform does not affect poor rural households who use firewood for heating.

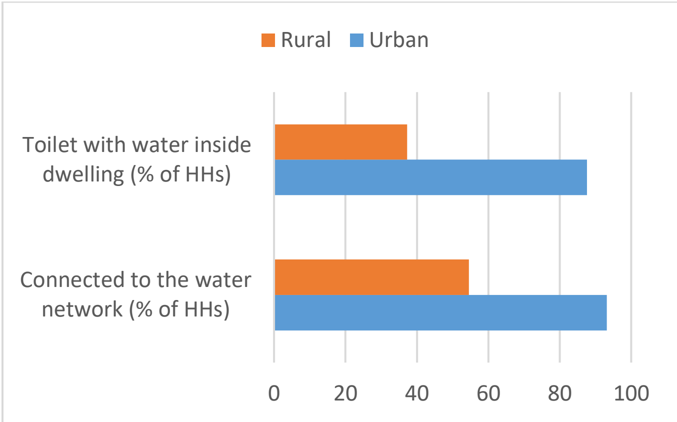
<u>Prior action 5:</u> *The Recipient has enacted laws on the insurance sector to strengthen households' financial resilience by enhancing the regulatory framework and prudential requirements, as evidenced by Law on Insurance and Reinsurance No. 92/2022, dated April 7, 2022, and published in the Official 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.*

This Prior Action will upgrade the legal framework governing the insurance industry in Moldova to align it more closely to EU legislation. Under the new legal framework, capital and reserve requirements for insurance companies will be raised, improving the financial footing of the industry and reducing financial risks for households. Currently, a substantial share of companies operating in the insurance industry are managed improperly and lack sufficient reserves to effectively respond to insurance claims, increasing the risk of out-of-pockets payments for households despite being nominally insured. By upgrading the legal framework, this Prior Action is expected to contribute to strengthened household financial resilience in the medium term.

<u>Prior Action 6</u>: *The Recipient has (i) taken measures to establish the National Fund for Regional and Local Development to support local development infrastructure projects, including in 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 7 supports a law that establishes a National Fund for Regional and Local Development, which brings under the same instrument and management all projects destined to regional and local development. It also supports new regulations to improve the management of regional and local investment projects (e.g. by introducing competitive project selections and requiring annual audits of the fund). The expected longer-term effect of this reform is to increase the efficiency of public spending on local infrastructure and to improve local populations' access to key infrastructure. The Prior Action is expected to have a positive distributional effect in the longer term by closing the gaps low-income households, who tend to live in rural areas and poorer communities, currently face.

Figure 6: Access to water and sanitation infrastructure, % of population



Source: Household Budget Survey, 2019.

<u>Prior Action 7:</u> *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.*

This prior action marks the start of what will need to be a sustained effort to reform Moldova's railway sector, which has been in a state of decline since the early 1990s. The weakness of the railway sector contributes to the limited competitiveness of the Moldovan economy by keeping transport costs high, limiting the benefits of closer integration with the EU, and also contributes to GHG emissions, as the decline in rail freight has been taken over by road transport. As highlighted in the recently completed SCD Update, the reorganization of the railway sector presents the opportunity to enhance competitiveness, develop a green transportation system, and provide safer and affordable transport services.

The Prior Action is unlikely to have significant adverse distributional impacts. In the long-term, improved competitiveness thanks to a better-performing railway sector may spur job creation, positively affecting household incomes. The public service contract for passenger operations may result in a change in passenger fares, though the Government would take responsibility for compensating part of the cost, limiting the impact of potential fare increases on low-income households. The public service contract also guarantees minimum service on unpopular passenger routes, which will limit mobility impacts for populations living in relatively remote communities. Note that this Prior Action does not require, prescribe, or recommend labor rightsizing in the sector.

Prior Action 8: *The Recipient has facilitated access to and improved the quality, efficiency and transparency of public services for business and citizens, including the digitalization of services for business life-cycle, (registration, reorganization, trading, 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.*

This PA supports he continuation of the process of modernization of public services by creating a regulatory framework for the provision of public services and ensuring the accessibility, quality of services and efficiency of their provision. The reform will bring the regulatory framework of public services in line with the EU framework and is expected to address the deficiencies identified by an analysis of the previous governance framework. The PA also support the digitization of Government-to-Business (G2B) services by introducing changes to the Law on Personal Data Protection, Law on Credit Information Bureau, Company Law, Law on Real Estate Cadaster, Law on Electronic Communications, Civil Code, Labor Code, and a number of other laws. These changes are expected to facilitate interactions between the public and the private sector. Streamlined personal data protection legislation will reduce the administrative burden for SMEs, enable the development of more digital services, including financial services, and will facilitate the links between domestic and foreign SMEs.

This Prior Action is unlikely to have significant adverse social or distributional effects. While the adjustment of requirements for data privacy reporting and consent removes obstacles for businesses, it also seeks to ensure that individuals and communities are not harmed by exchange of sensitive private information, as such limiting the potential for adverse social effects. The Amendment Law removed the requirement to notify the National Centre for Personal Data Protection (NCPDP) of data processing activities. However this has been replaced by a risk-based approach to assessment where a Data Protection Impact Assessment (DPIA) is undertaken in specific circumstances including the processing of certain categories of data relating to disclosure of racial or ethnic origin, political opinions, religious denominations, philosophical beliefs or trade union membership, as well as genetic data, biometric data, data on health, data on sexual life or sexual orientation, or on criminal convictions, among other circumstances. DPIAs should systematically assess the likelihood and severity of impacts on rights and freedoms and describe risk prevention methods.