



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 08-Jan-2024 | Report No: PID044



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Moldova	P181479	Moldova Supporting Growth and Resilience DPO	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
EUROPE AND CENTRAL ASIA	30-May-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Republic of Moldova	Ministry of Finance		

Proposed Development Objective(s)

The DPO aims to (i) strengthen resilience of refugees and households, (ii) foster sustainable growth through enhanced competition and private sector-led growth, and (iii) support climate resilience.

Financing (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Financing	40.00
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DETAILS

Total World Bank Group Financing	40.00
World Bank Lending	40.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

Moldova is grappling with unparalleled challenges arising from the combined impact of energy crises and the spillover effects of Russia's invasion of Ukraine. This has led to a substantial influx of refugees, placing significant strain on households, the economy, and public finances. Despite efforts to mitigate these crises through fiscal measures and monetary policies, dwindling household incomes and uncertain financial conditions have led to a recession in 2022 and sluggish growth in 2023. Moldova faces structural challenges such as low productivity growth, governance deficiencies, limited competition, and an imbalanced business environment. The country also remains vulnerable to adverse weather events and energy shocks due to its heavy dependence on energy imports. The medium-term outlook depends on the successful implementation of pending structural reforms and progress towards European Union (EU) accession.

A proposed standalone Development Policy Operation (DPO) supports the Government of Moldova (GoM)'s efforts to assist refugees and households in the face of the fallout from Russia's invasion of Ukraine while keeping momentum on the long-term agenda of economic convergence to the EU and climate resilience. The DPO consists of three pillars: strengthening resilience of refugees and households, fostering sustainable growth through enhanced competition and private sector-led growth, and supporting climate resilience. The operation aligns with the World Bank Group's Global Crisis Response Framework (GCRF) and builds on the reform program supported under the "Moldova Emergency Response, Resilience, and Competitiveness" DPO series (P175640, P179086, P180359).

Relationship to CPF

The proposed operation is consistent with the WBG CPF FY23–FY27 discussed by the Board on March 14, 2023 (Report No. 177939-MD) as part of the WBG's broader effort to support the authorities in their response to the immediate impact of the combined energy and refugee crises, and efforts to build resilience against future shocks. The design of the operation reflects the lessons learned in the implementation of previous operations, as reflected in the CPF Completion and Learning Review (CLR). The proposed DPO is complemented by the Bank's technical assistance and analytical work, including a CEM, a Public Expenditure Review, and a Climate Change and Development Report (forthcoming in FY24).

C. Proposed Development Objective(s)

The DPO aims to (i) strengthen resilience of refugees and households, (ii) foster sustainable growth through enhanced competition and private sector-led growth, and (iii) support climate resilience.

Key Results

Results intended to support refugees and households aim at: (i) creating additional employment opportunities for women and refugees through fixed-term contracts, and (ii) expanding the number of beneficiaries processed under case management, with a particular focus on women-headed households.

To support competition and private sector-led growth, this DPO aims at four key results: (i) increasing the number of decisions on anticompetitive practices; (ii) notifying more state aid decisions through the simplified procedure; (iii) increasing the number of independent system operators of gas and electricity networks; and (iv) ensuring a higher number of banks compliant with the new Banking System Deposit Guarantee Fund (FGDSB) funding mechanism.

To support climate resilience and the green transition, the DPO support the following results: (i) increasing the energy retrofitted floor area of buildings; (ii) expanding the capacities of solar photovoltaic installations through the feed-in tariff mechanism; (iii) enhancing transparent and accountable reporting of greenhouse gas (GHG) emissions; and (ii) expanding the forest area under silvicultural management and within protected areas.



D. Concept Description

The proposed operation aims to achieve its policy objectives through three pillars, the first of which aims to strengthen the resilience of refugees and households. The operation supports amendments to the Labor Code to increase flexibility in hiring refugees and women, thereby creating more employment opportunities, and fostering a more diverse and inclusive workforce. It will further introduce a case management approach in the last-resort social assistance initiative ‘Ajutor Social program’ to increase its impact and facilitate the graduation of beneficiaries, and ultimately fortify the resilience of households. These measures are in line with the objectives for long-term human and social capital in the government’s medium term strategy, European Moldova 2030.

The second pillar of the operation aims to foster sustainable growth through enhanced competition and private sector led growth. Reforms include amendments to the Competition law to strengthen the institutional and regulatory framework for competition to foster more efficient market dynamics, and improvements in the State Aid system to ensure a level playing field, accountability, and investor confidence. It will enhance governance and competition in the energy sector by unbundling of the gas sector and aligning the Electricity Law with the EU Regulation, to support energy security, encourage private sector engagement and investments, and promote fair market practices. Lastly, it will strengthen the FGDSB to enhance depositor and investor confidence, support financial stability, and promote private sector growth.

The third pillar prioritizes climate resilience, in line with the objectives of European Moldova 2030 for a healthy environment. It supports energy efficiency through the adoption of the Energy Performance of Buildings Law (EPBL) and the establishment of the National Center for Sustainable Energy (NCSE), the adoption of the Renewable Energy Law to promote uptake of renewable energy, and the Climate Law, which establishes binding climate commitments and provides the legal and institutional basis for implementation. Additionally, it promotes forest conservation for carbon absorption and agricultural land resilience through amendments of the Forest Code and institutional reforms, contributing to climate change mitigation and adaptation efforts.

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

Poverty and Social Impacts

The proposed operation is expected to have overall positive poverty and social impacts. Reforms under Pillar 1 are expected to remove employment restrictions for women, youth, and refugees, and provide more tailored support to poorer households for a smoother transition from social protection to employment. Policies under Pillar 2 will likely have positive or neutral distributional impacts by improving the competition environment, which is expected to reduce markups, promote innovation, and indirectly contribute to job creation, and by enhancing the stability of the financial system. Policies under Pillar 3 are expected to have positive indirect impacts. Policies to enhance energy efficiency, improve incentives to invest in renewable energy, and establish legally binding climate commitments are expected to reduce emissions, enhance energy affordability and resilience against energy price shocks, and have the potential to stimulate job creation. Improving sustainable forest management will enhance agricultural livelihoods and reduce the impact of natural disasters.

Environmental, Forests, and Other Natural Resource Aspects

The reforms supported through this DPO are expected to have either positive or no effect on Moldova's environment, forests, and other natural resources. Reforms under Pillar 1 and 2 are expected to have a neutral impact, while prior actions under Pillar 3 are expected to have a positive impact in the long run. The implementation of key climate policies, energy efficiency measures, renewable energy promotion, and forest legislation, aim to reduce GHG emissions, promote sustainable resource use, protect biodiversity, and generate co-benefits for public health.



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APPROVAL

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