World Bank Group and Moldova

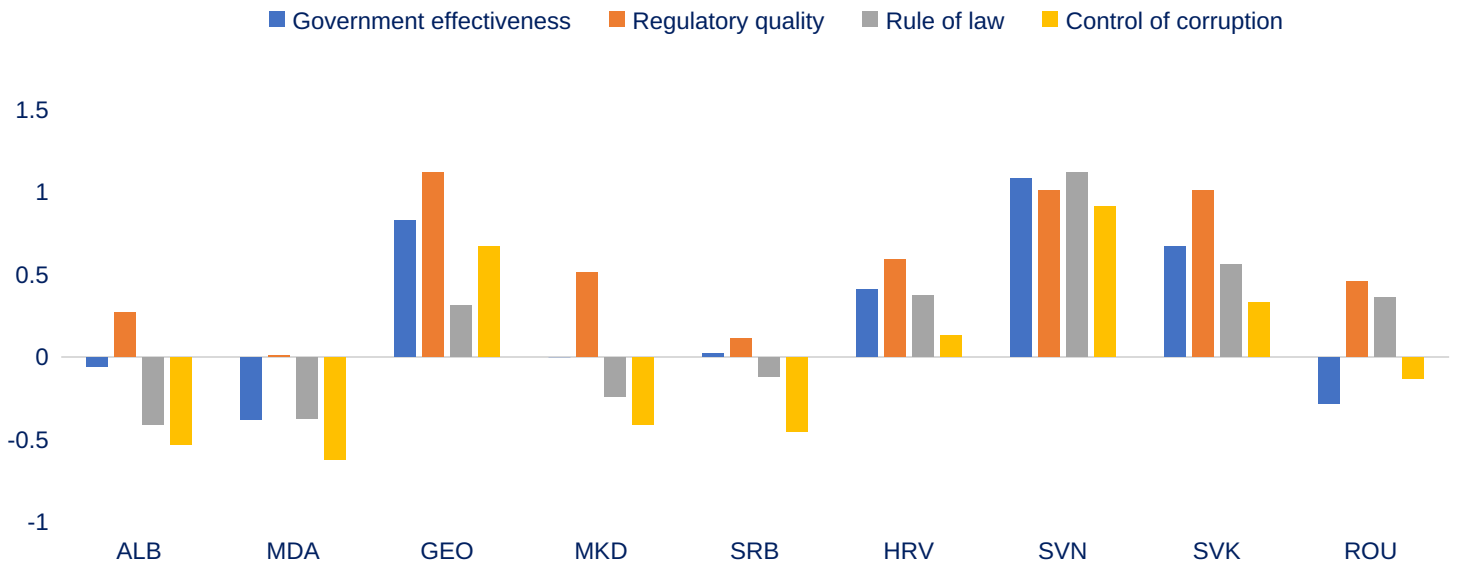
Country Partnership Framework

2023 - 2027

World Bank Moldova
30 Years of Partnership

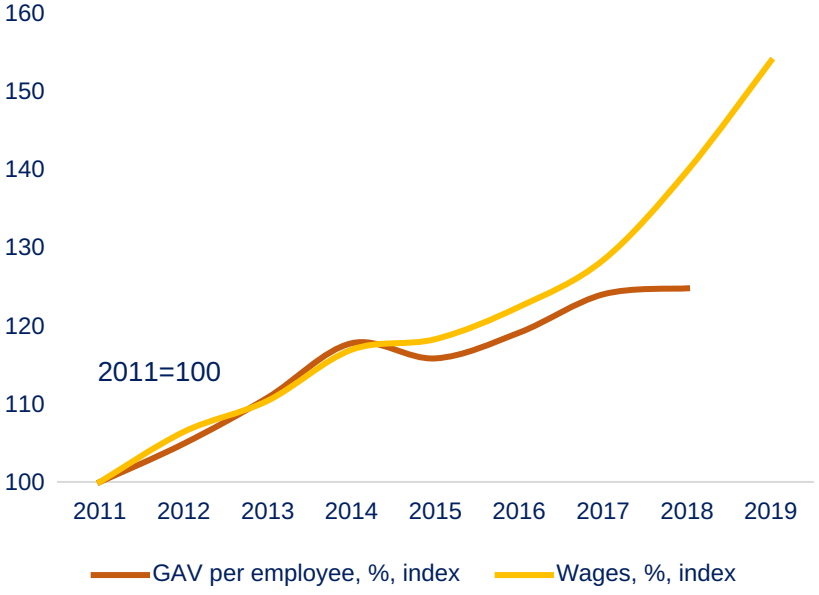
Country Context: Strengthening Governance and Public Sector Reform is Urgent and Essential

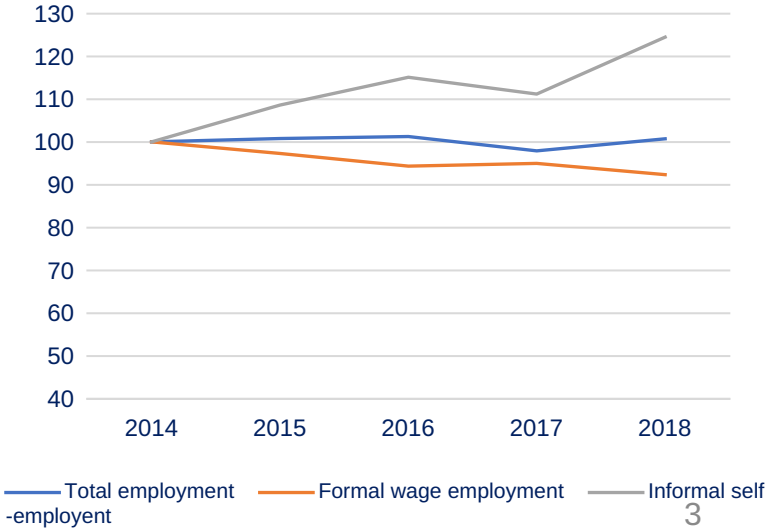
- Long-term political volatility and lack of government effectiveness, rule of law, and control of corruption hampered Moldova's development and undermined competitiveness
- Governance is a challenge not only at the national level but also at the sectoral level and sub-national level
- Elections of pro-European President and Parliament provides significant opportunity for reform, along with the country's EU accession agenda which adds challenges
- Strengthening institutions and capacity is the most pressing priority to support inclusive and sustainable growth



Country Context:
Economic and Structural Transformation are Critical

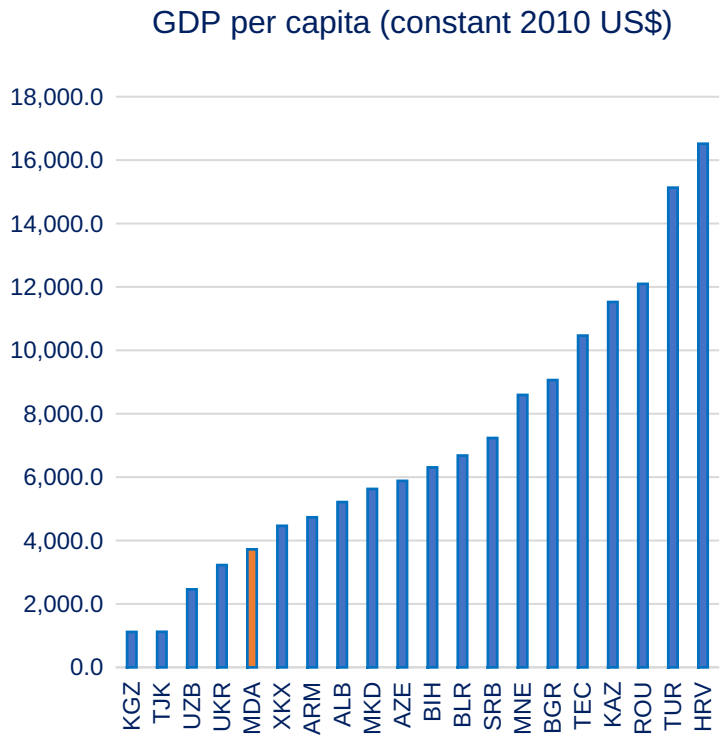
- Despite strong recent growth, potential growth declining due to shrinking and aging labor force, low efficiency of public investment, lagging structural transformation and weak competitiveness
- Dominant presence of a large group of state-controlled institutions created an uneven playing field, factor misallocation and unfair competition
- Declining formal sector employment and significant obstacles for firms to grow and create jobs
- Labor productivity and wages have increased, and since 2014 wages have grown substantially faster
- Trade is high, but primarily driven by imports with exports dominated by primary products, low- and medium technology manufactures, and resource-based manufactures (agriculture and textiles) in decline
- Serious vulnerability to impacts of climate change and energy price shocks

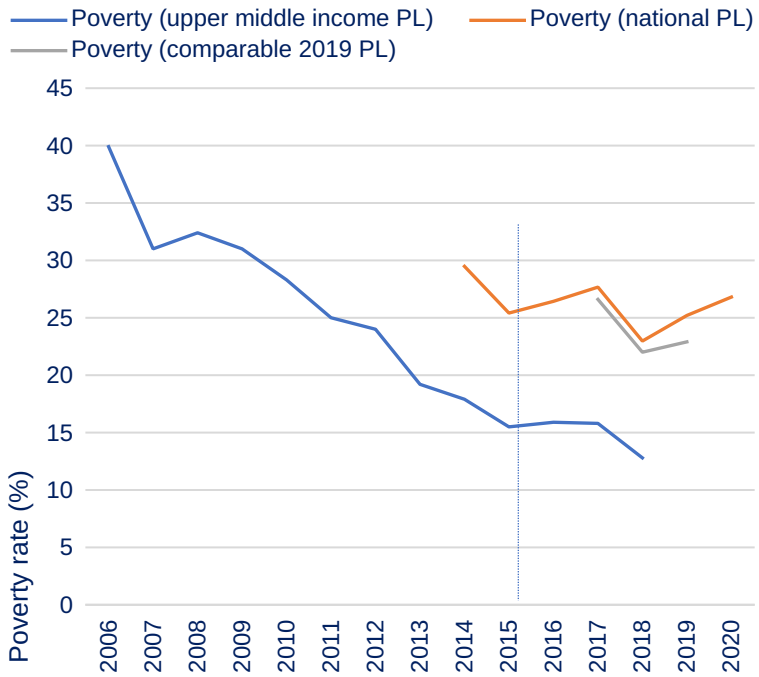




Country Context:
One of the Poorest and Rapidly Aging Countries in ECA

- Relatively low HCI and significant inequality of opportunity (rural vs urban)
- Inequity (rural/urban) in access to key public services, e.g., water and sanitation
- Income growth of the poor is entirely driven by social transfers.
- Low coverage of means-targeted social assistance programs and income for the poor driven by social transfers



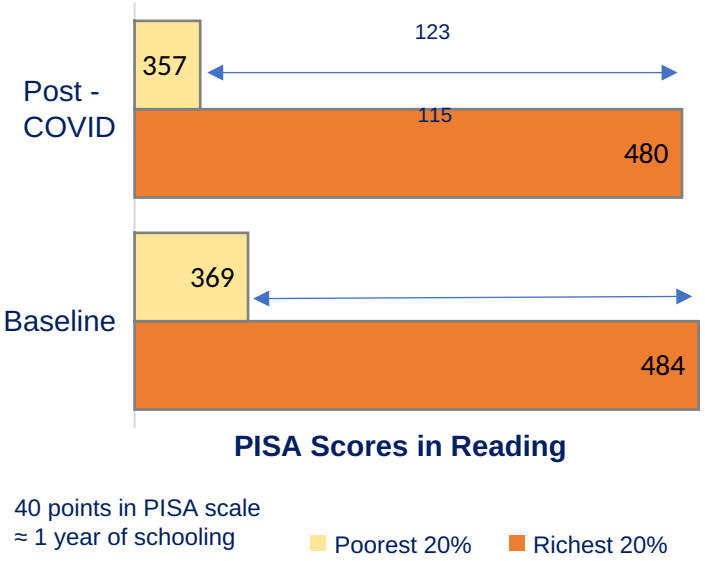


Country Context
Highly Vulnerable to External Shocks

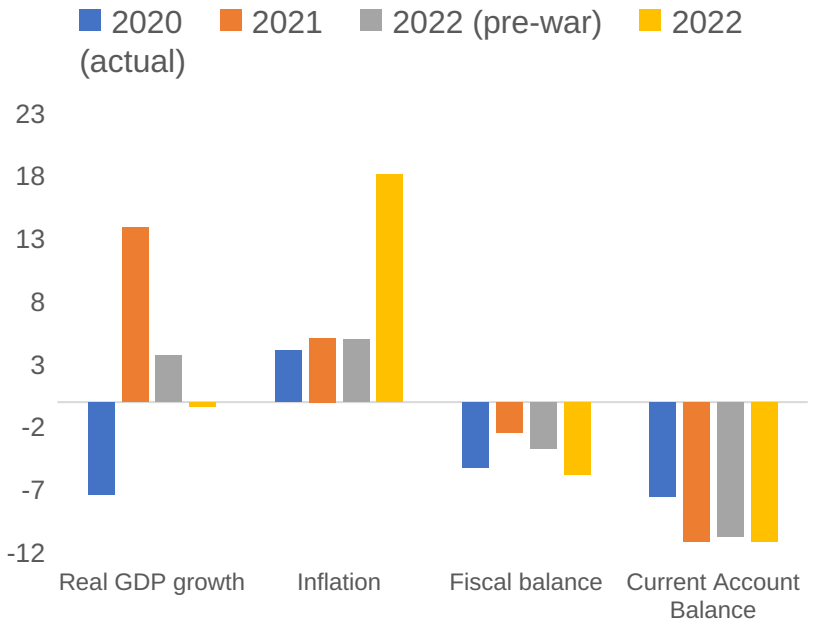
Recent and Ongoing Crises—Disaster, Pandemic, Energy and the War on Ukraine:

- **Frequent natural disasters from effects of climate change**: four drought years in past 20 years
- **Covid:** pandemic has had a negative impact on poverty, learning and expected future earnings
- **Trade disruptions**: fuel prices and food insecurity increasing poverty and straining public finance
- **Refugee influx** and huge associated costs for the government

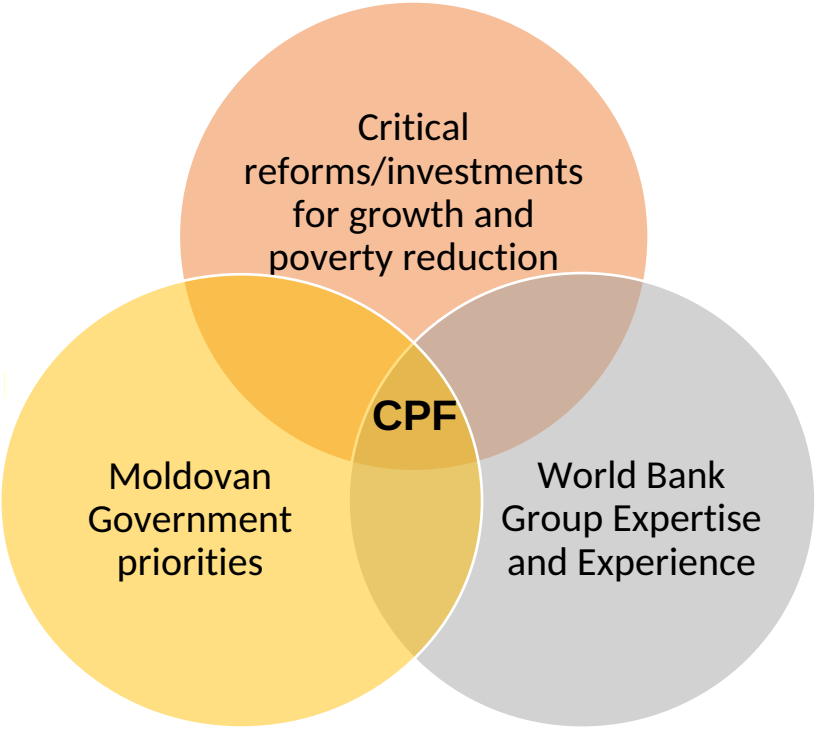
Estimated impact of COVID-19 on socio-economic achievement gap



Moldova will likely be severely affected by the war



Preparing the Country Partnership Framework (CPF) for 2023-2027



1. **Informed by the Systematic Country Diagnostic and Country Private Sector Diagnostic**– analytical foundations of the World Bank Group
2. **Identifies major pillars** along which World Bank Group agrees with the Government of Moldova to provide assistance – financial, technical and analytical
3. **A selective and flexible program**, decided between the World Bank Group and Moldova's government based on:
   - Analytical foundations (critical reforms/investment needed for Moldova's growth and poverty reduction)
   - World Bank Group's specific expertise (comparative advantage)
   - Government's own priorities

CPF HLOs Align with Government and SCD Priorities

Govt Priorities

Sustainable and inclusive economic development
Long-term human and social capital
Honest and efficient institutions
Healthy environment

SCD Priorities

- Improving the business environment to enhance competitiveness
- Strengthening resilience, particularly to climate change
- Improving resilience, efficiency and equity in service delivery
- Strengthening the rule of law and institutional capacity, including at the sectoral and subnational levels
- Reorienting public finance to support a new growth model

HLOs

- Increased Formal Employment
- Improved Human Capital
- Increased Green and Resilient Investments

Moldova CPF 2023-27 High Level Outcomes (HLOs) and Objectives

HLO 1	HLO 2	HLO 3
Increased formal employment	**Improved Human Capital**	**Increased Green and Resilient Investments**
Objective 1.1: Increased competitiveness of Moldovan Enterprises	Objective 2.1: Increased quality and relevance of education services	Objective 3.1: Increased energy security and efficiency
Objective 1.2: Decreased regulatory burden	Objective 2.2: Improved efficiency of health service delivery	Objective 3.2: Green and resilient investments in infrastructure and agriculture

Strengthening systems and institutions, including through digitalization and capacity building, underpin all CPF Objectives

Program Implementation Builds on Existing Foundations and Engagement Experience

- Focuses on the medium term while responding to current crises
- Maintains momentum of current reforms and investments
- Scales up successful operations through additional financing
- Relies on strong champions to ensure ownership
- Embed interventions to strengthen institutions, capacity, and digitization in all activities
- Project design considers capacity constraints both at the central and local level
- Leverages complementarities with other development partners
- Proposed IBRD financing under the CPF would be up to US$550 million
- Leverages support from IFC and MIGA (e.g., agriculture, SME and analytics)

Initial CPF program

Lending:

FY23 (July 1, 2022 – June 30, 2023):

- Development Policy Operation (budget support)
- Agriculture: Governance, Growth and Resilience Investment Project
- Education Quality Improvement Project

- FY24 (July 1, 2023 – June 30, 2024):
- Road Safety and Transport Sector Financial Sustainability Project
- Energy Efficiency Project
- Health Equity and Quality Improvement Project

Analytical and Advisory work:

- Poverty Assessment
- Reforming Social Assistance System CCDR
- Country Economic Memorandum
- CCDR
- Gender Assessment
- Disaster Risk Management dialogue
- Energy/gas technical advice
- Governance dialogue
- Etc..

Risks to Implementation of the CPF

Risk Categories	Rating
1. Political & Governance	Substantial
2. Macroeconomic	Substantial
3. Sector strategies & policies	Moderate
4. Technical design of project/program	Moderate
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Moderate
7. Environmental & Social	Moderate
8. Stakeholders	Moderate
9. Other: Current and Future Crises	Substantial
OVERALL	**Substantial**

Currently, there are substantial risks in four areas:

Political and Governance: increased social pressure from food and fuel prices and strong polarization of the electorate

Macroeconomic: vulnerability of the economy to the war in Ukraine thought the trade, remittances channels, energy and food prices, vulnerability of the economy, agriculture in particular, to extreme weather conditions and potentially unsustainable domestic debt

Institutional Capacity: weak implementation capacity across the government, attention from implementation of critical reforms diverted by the need to address urgent issues stemming from emerging crises

Other: **The most significant risk is uncertainty due to the war in Ukraine and its socio-economic ramifications in Moldova, as well as globally**

Tentative Timeline

June 2, 2022: Internal Moldova Country team brainstorming meeting

June 30, 2022: Concept Review Meeting

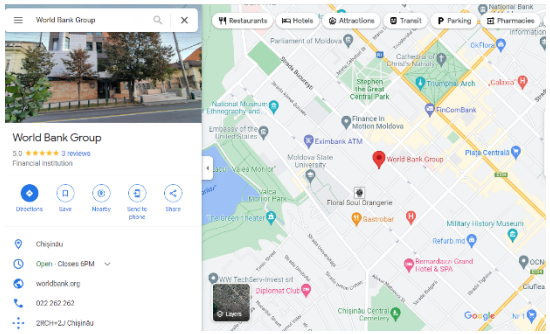
August - September 2022: Consultations with the government, development partners, private sector, academia, and civil society

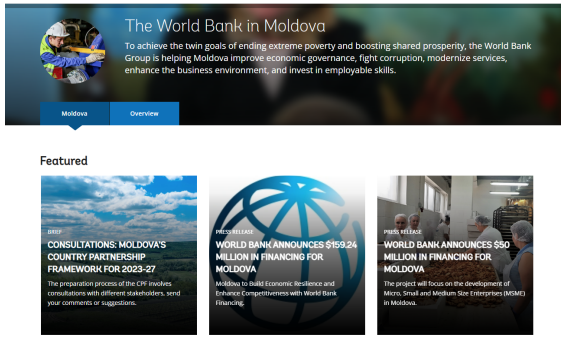
October 2022: WBG Decision Meeting

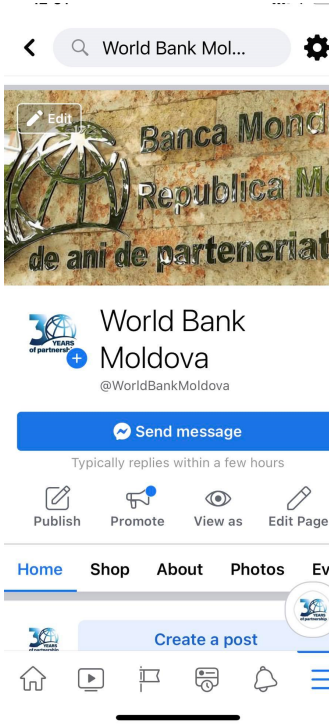
November - December 2022: Submission to the Board

Contact us

For more information and your kind feedback, please visit our website and Facebook page







EMAIL YOUR COMMENTS QUESTIONS AND SUGGESTIONS

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