

World Bank and Moldova



Country Partnership Framework

2023 - 2027

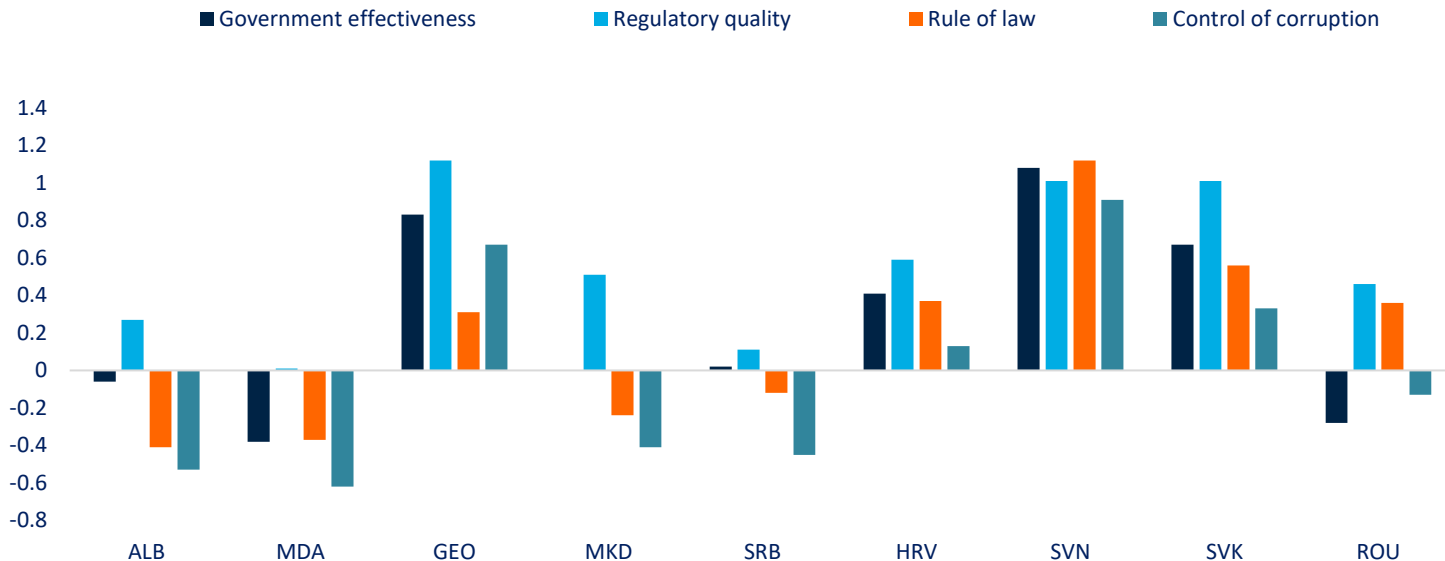


Overview: At the Crossroads for Sustained Reform

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- Last decade – high, yet unstable growth rates and sustained decline of poverty
 - Current economic model with unreformed economy, pervasive role of SOEs and remittance-financed consumption hinder efforts to support future inclusive growth
 - High political volatility and weak institutions have hampered sustained reform efforts – capacity lens will need to be applied across investment portfolio
 - More reliance on private sector, increased competitiveness and resilience, strengthened human capital and better institutions will be essential in enabling the new economic model
 - Recent and current crisis have shifted focus on immediate challenges, however, the commitment to address Moldova’s long-term development agenda remains strong with clear goal to advance EU accession agenda
 - WBG engagement program will support the advancement of the EU accession agenda in collaboration with the development partners to ensure complementarity while remaining flexible to adjust for changing environment

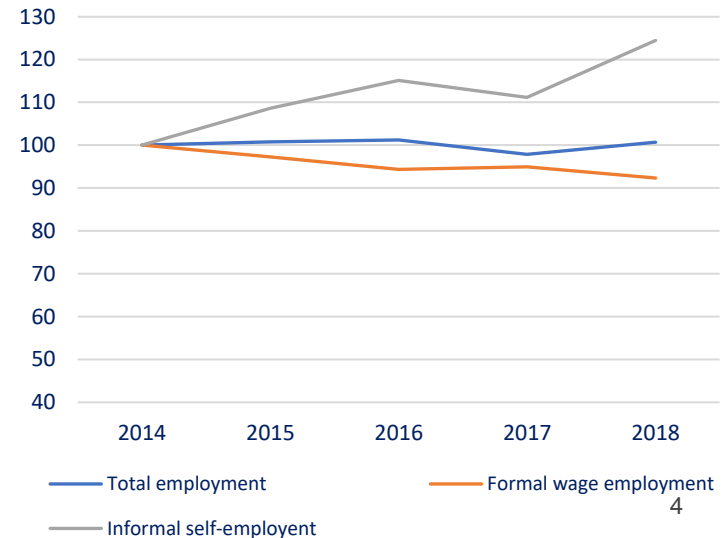
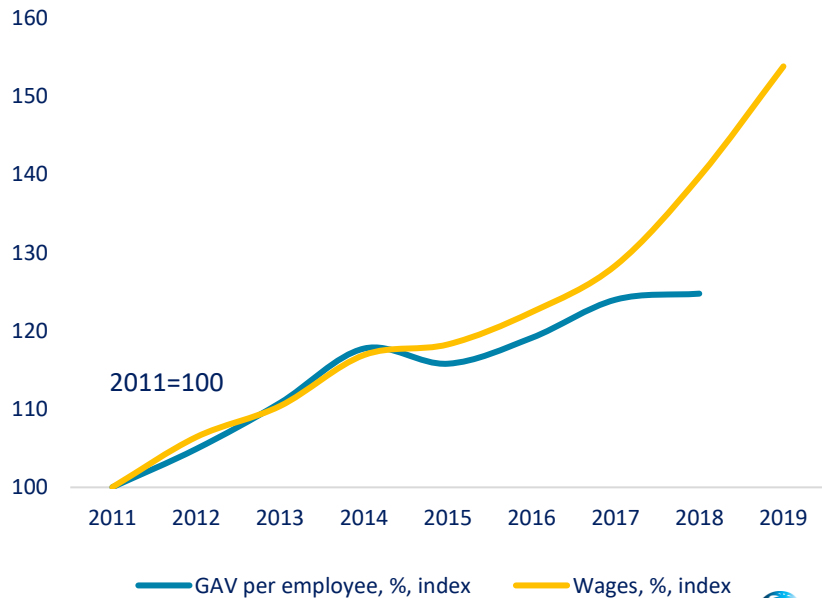
Country Context: Strengthening Governance and Public Sector Reform is Urgent and Essential

- 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
- Recent (2021) elections of pro-European President and Parliament provides significant opportunity for reform
- Strengthening institutions and capacity is the most pressing priority to support inclusive and sustainable growth



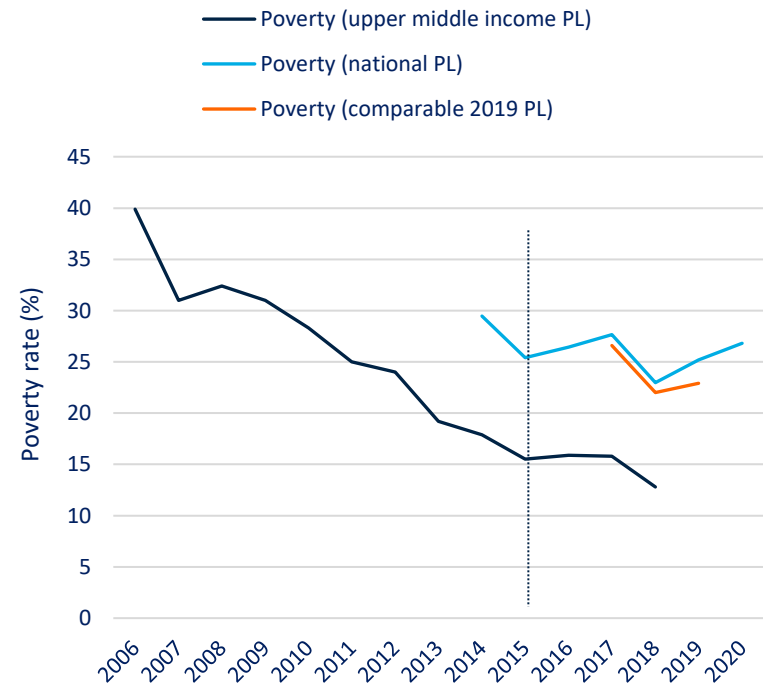
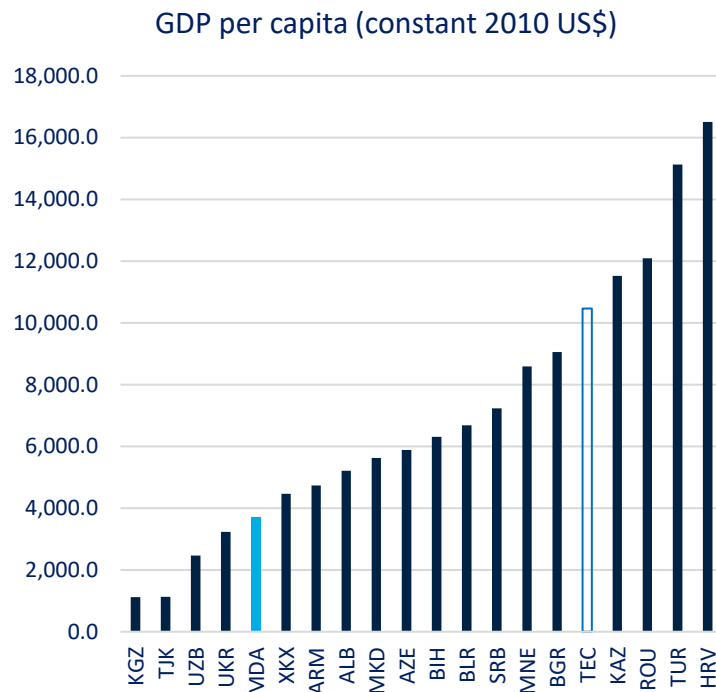
Country Context: Economic and Structural Transformation are Critical

- 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



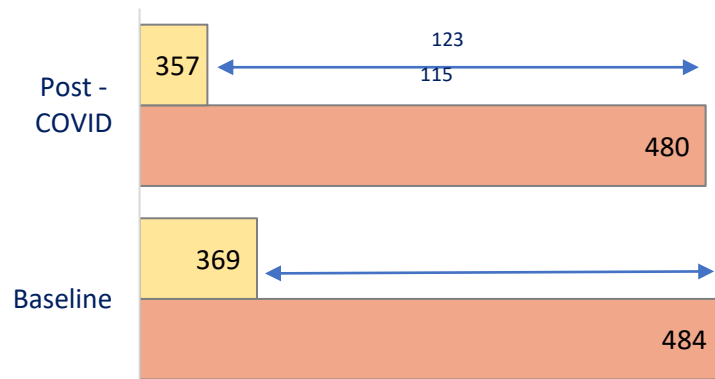
Country Context

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:** refugee count equivalent to 4% of Moldovan population; required national state of emergency costing US\$ 1million/day

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

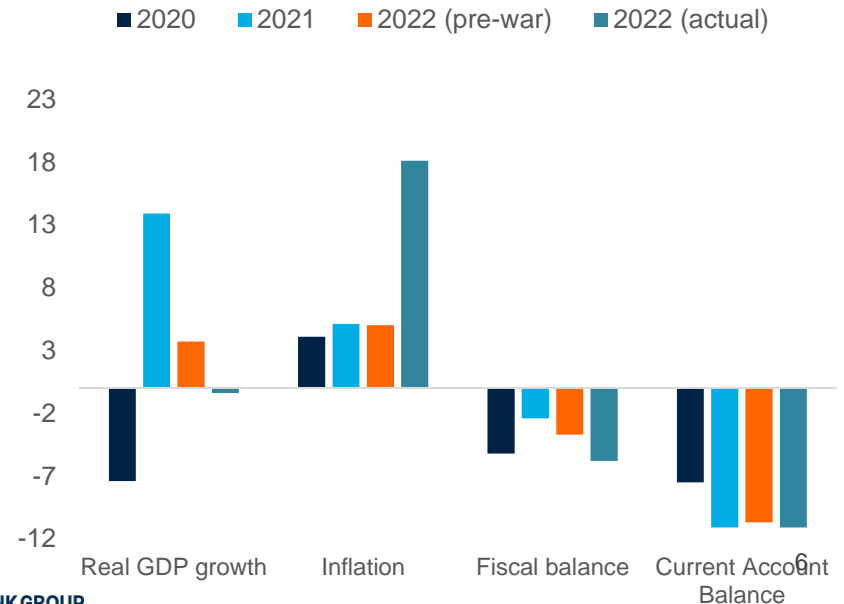


PISA Scores in Reading

40 points in PISA scale ≈ 1 year of schooling

■ Poorest 20% ■ Richest 20%

Moldova will likely be severely affected by the war



Challenges and Opportunities Ahead

IFC
perspective

Challenges

- Deep-rooted governance and institutional weaknesses
- Limited resilience to shocks and slow adaptation to global trends
- Large obstacles for firms to grow and create jobs
- Limited room for fiscal policy to support recovery and long-term growth
- Large gaps in public service delivery and persistent inequality of opportunity

Opportunities

- New Government has mandate and can focus on sustained reform efforts
- High vulnerability to energy price shocks can lead to increased diversification
- Current focus on digitalization can increase opportunities for new markets, jobs and improved public sector efficiency
- Deepening economic ties with EU can create opportunities for better market access

Government Priorities: A New Growth Model

Shifting from consumption-based growth toward a growth model based on raising investment, increasing productivity and competitiveness, developing export industries, and promoting a knowledge-based society

▪ **Moldova 2030 priorities**

- sustainable and inclusive economic development
- long-term human and social capital
- honest and efficient institutions
- healthy environment

▪ **Short-term priorities (2021-2022)**

- health crisis management
- judiciary and anti-corruption reform
- social protection for vulnerable groups
- resumption of external financing



SCD Priorities:

Building Resilience and Enhancing Competitiveness

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- **Strengthening the rule of law and institutional capacity, including at the sectoral and subnational levels**
 - reform the judiciary
 - strengthen the asset declaration system
 - Address deficiencies in tax administration capacity
 - Strengthen capacity and enhance the quality of sectoral and subnational institutions
 - **Strengthening resilience, particularly to climate change**
 - develop comprehensive “proactive” DRM and climate resilience agenda and mainstream in sector institutions
 - key priorities include forestry, water resource management, green transport
 - promote stronger and more competitive agriculture sector
 - Public and private sector to focus on climate mitigation
 - **Improving the business environment to enhance competitiveness**
 - close input gap: access to finance and improved education and skills
 - close regulatory gap: financial sector, trade and export standards
 - close infrastructure gap: connectivity, road safety, electricity, water, digital
 - **Reorienting public finance to support a new growth model**
 - improve the efficiency of spending while ensuring equity and progressivity
 - domestic revenue mobilization, and direct and progressive taxation
 - stronger countercyclical stance and more effective fiscal rules
 - **Improving resilience, efficiency and equity in service delivery**
 - reduce inequities in access to education, and improve educational quality and relevance
 - targeted improvements in health, transport and water
 - social safety net and pensions
 - create digital platforms for improved service delivery, work force and firm innovation

Moldova Country Private Sector Diagnostic: Findings and a Set of Recommendations

Cross-cutting Issues

Competition Policy and SOEs

- ensuring a level playing field for private and public operators,
- promoting pro-competitive regulation in key sectors,
- further strengthening competition enforcement

Trade harmonization and integration agenda with the EU

- fully implementing the provisions of the DCFTA with the EU
- maximizing the gains of Free Economic Zones (e.g. through downscale the importance of fiscal incentives, facilitate mobility of labor)
- strengthening the National Agency for Food Safety to align local legislation and practices with EU regulations

Enabling Sectors

Transportation and logistics

- developing a long-term strategy and action plan for multimodal transport integration and logistics,
- accelerating the implementation of the National Single Window for trade
- pilot-testing standard Output/Performance-based contracts for maintenance of key road corridors

Opportunities for MSMEs-targeted finance

- developing a long-term regulatory strategy for the financial markets including the banking and NBCOs
- promoting asset-based lending (e.g., crop and warehouse receipts), also by fixing the movable collateral registry
- creating enabling conditions for entry of digital financial services providers, via regulatory push for PSD2 implementation.

Sectoral Deep Dives

Renewable Energy

- piloting utility-scale projects through sealed bid auctions,
- investing in grid development and modernization,
- preparing a least-cost generation plan (a roadmap of investments in RE)

High-Value Added Agribusiness and Food Processing

- establishing a long-term agriculture sector strategy
- promoting competition, efficient production systems, and land consolidation
- facilitating smallholder access to finance (e.g., microcredit providers, guarantees provision)
- improving climate change resilience efforts and promoting climate-smart agricultural practices.

ICT Services and BPO

- promoting the next wave of growth in IT (e.g., expanding physical infrastructure, helping SMEs go global)
- replicating IT success story in the BPO & SSC ecosystem through predictable B2B and remote work regulations

Moldova Country Private Sector Diagnostic:

Prioritization of Recommendations to mitigate the impact of the Russian invasion of Ukraine and of the lingering effects of the COVID-19 crisis

Cross-cutting constraints

Accelerate Trade Policy Harmonization and Facilitation with the EU

- Implement provisions of the DCFTA in all sectors.
- Eliminate remaining tariff peaks.
- Eliminate restrictions to trade in services
- Provide support to the National Agency for Food Safety (ANSA) to align with EU regulations

Develop a Clear Strategy for SOEs Ownership (Privatization Triage), and Level the Playing Field for Private and Public Operators

- Develop a framework for SOE reform, including a government ownership strategy and roadmap for higher private sector ownership through SOE privatizations, PPPs and concessions
- Promote competition neutrality between SOEs and private companies
- Adopt the Railway Transport Code and Action Plan to reorganize the railway sector and spur competition

Enabling Sectors

Upgrade Border Crossing Points & Streamline Customs Procedures with Romania, and Strengthen Transport and Logistics Networks with the EU

- Prepare Blueprint for the National Single Window (NSW) for Trade.
- Upgrade Border Crossing Points with Romania and develop of a one stop-shop customs clearance zone in Chisinau.
- Modernize railway rolling stock and assets
- Improve hinterland connectivity of available gateway ports of Giurgulesti and Constanta, not affected by the war.

Increase Access to Finance for MSMEs to weather the double shocks of the Russian invasion of Ukraine and lingering COVID-19 crisis

- Develop and announce a regulatory strategy for financial markets beyond 2022
- Enforce data exchanges between credit information operators, and access of private sector credit information operators to relevant data held by government entities.
- Scale up and increase attractiveness of credit guarantee schemes for MSMEs (coverage and payout practice), with a focus on women entrepreneurs
- Review legislation to enable modern instruments like crop and warehouse receipts.

Tradable Sectors


Ensure Energy Security in the short-term, while creating enabling conditions of private investment in **Renewable Energy**

- Prioritize the Security of Supply considerations. Invest in 400 kV connection to ENTSO-E (via Romania). Consider new interconnections considering security of supply and availability of interconnections to Ukraine
- Prepare a least cost generation plan that provides a roadmap for investments in RE and substantiates an update of RE targets.


Increase Market Access to the EU for **Agribusiness** through Harmonized Food Safety and Quality Standards

- Align food safety regulations and implementation with EU standards, with a focus on horticulture, and facilitate the adoption of food safety and quality certifications (e.g. Global GAP, HACCP/ISO 22000, and EU organic)
- Invest in the development of laboratories and digital infrastructure to support traceability systems.

Lessons Learned from Past CPF will Inform the Program Going Forward

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- **Program flexibility** is key to accommodate for emerging needs and shifting priorities
 - Align with **Government priorities**, account for **Government capacity** and incorporate capacity building where needed
 - **Well coordinated DPOs** can be a powerful tool to advance reforms, but operations need to recognize the importance of minimizing ex-ante the risk of policy reversals
 - **Strategic use of programmatic analytical work** is critical to maintaining engagement and as an entry point for future operations
 - Programming **focus on continuing and scaling up successful engagements** with sector champions is key to minimizing risks to future implementation
 - Increased **focus on the project design stage is essential** to realistically account for limited capacity, particularly with multi-sectoral / cross-governmental operations
 - Bank **fiduciary guidelines remain a critical** safeguard to reduce fiduciary and procurement risks
 - **IFC's engagement** has been limited by the lack of scale and the weak competition environment and will remain focused on addressing regulatory issues while aiming to identify large-scale private sector investment projects

CPF: Selective, Flexible, Focused and Delivering Results

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- **Clear strategic focus and selectivity while maintaining flexibility**
 - draws on SCD and Govt priorities, and WBG comparative advantage, e.g., private sector and green growth, resilient infrastructure, health and education, select governance support
 - Flexible to respond to changing environment
 - **Phases in areas of focus over CPF period**
 - ongoing/initial focus on HLO1 and HLO2 with increasing focus over time on HLO3
 - **Includes key WBG corporate priorities**
 - focus on climate change and addressing gender gaps at sectoral/national level
 - **Builds on Lessons Learned and WBG Collaboration**
 - strong focus on government capacity
 - Extends WBG support in agriculture to other sectors (eg investment climate)
 - **Describes what WBG will not do**
 - leaving broad public sector and judicial reform to other partners (e.g., EU, EBRD, EIB, USAID)

Good IFC-WB Collaboration in the Agriculture Sector will be Replicated

Agriculture inputs reform (2017-2018)

- IFC providing the analytical underpinnings, then drafting and conducting policy discussions on liberalizing the access to EU-registered agri inputs (seeds, fertilizers & pesticides)
- WB DPO supporting the reform via a dedicated conditionality

Official veterinary laboratories (2019-2022)

- IFC performed laboratory gap assessment (buildings, equipment, prices, people)
- WB invested in laboratory buildings and equipment
- IFC provided training and proficiency testing for accreditation of approx. 45 new EU-compliant methods

Food safety Information Systems (2021-2022)


- WB developed original IT systems for food safety institutions in 2010-2015
- IFC upgrading and integrating old systems, adding new modules
- WB investing in licenses for the new integrated IT system

Animal by-product management (2021-2022)

- IFC carrying out Feasibility Study for the construction of an ABP processing facility
- WB to invest in the construction of the ABP processing facility

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

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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

Promote Growth and Resilience

Deepen Human Capital

Strengthen Governance and Public Institutions

Moldova CPF 2023-27 High Level Outcomes

HLO 1

Promote Growth and Resilience

Objective 1:
Foster private sector by improving business environment

Objective 2:
Diversify energy sources and promote green infrastructure investments

HLO 2

Deepen Human Capital

Objective 1:
Increase access and equity of education services

Objective 2:
Improve efficiency and resilience of health service delivery

HLO 3

Strengthen Governance and Public Institutions

Objective 2:
Strengthen capacity of public institutions, including through digitization

Proposed Activities to Support HLO 1: Promote Growth and Resilience

Ongoing and Planned Program for Initial Years

Ongoing Portfolio

World Bank:

- Ag Competitiveness Project
- Tax Admin Project
- Local Roads Improvement Project
- Power System Development Project
- Second District Heating Improvement Project
- Water Security and Sanitation Project
- FY22 Competitiveness and Resilience DPO

Joint WB/IFC:

- MSME Competitiveness Project

Ongoing ASA

World Bank:

- Advisory Support on Gas Issues
- Public Buildings Energy Efficiency
- Power Interconnection Analysis Update
- Financial and Private Sector Monitoring
- Public Finance Review
- Disaster and Risk Mgmt and Financing TA

IFC:

- Investment Climate Reform Advisory Project
- Country Private Sector Diagnostic

Pipeline

World Bank:

- FY23/24 DPO
- FY23 Agriculture Governance Growth and Resilience Investment Project
- FY24 Road Safety and Transport Sector Financial Sustainability Project
- FY24 Renewable Energy

Proposed ASA

World Bank:

- CC DR
- CEM 2.0

IFC:

- Opening Markets in Agrifood Advisory TA
- SOE Governance
- Banking Sector Advisory

Proposed Activities to Support HLO 2: Deepen Human Capital

Ongoing and Planned Program for Initial Years

Ongoing Portfolio

World Bank:

- Moldova Education Reform Project
- Health Transformation Project
- Local Roads Improvement Project
- Higher Education Project
- Emergency Covid-19 Response Project

Ongoing ASA

World Bank:

- Toward Universal Health Coverage
- Digital Education Readiness Assessment
- Social Inclusion Platform
- Gender Assessment & Action Plan

Pipeline

World Bank:

- FY23 Education Quality Improvement Project
- FY24 Health Equity and Quality Improvement Project
- FY24/25 Social Protection & Jobs Project

Proposed ASA

World Bank:

- Poverty Assessment
- Reforming Social Assistance System Ajutor Social

Proposed Activities to Support HLO 3: Strengthen Governance and Government Capacity

Ongoing and Planned Program for Initial Years

Ongoing Portfolio

World Bank:

- Tax Administration Project
- Modernization of Government Services
- Land Registration and Property Valuation Project
- Water Security and Sanitation Project

Ongoing ASA

World Bank:

- Public Finance Review
- GovTech Support
- Toward Universal Health Coverage
- National and Sub-national Public Expenditure and Financial Accountability Assessment
- Govt Crisis Management Center (TA with donors)

IFC:

- Investment Climate Advisory Project
- Country Private Sector Diagnostic

Pipeline

World Bank:

- FY23/24 DPO
- FY23 Agriculture Governance Growth and Resilience Investment Project

Proposed ASA

World Bank:

- Quality Water Security Infrastructure TF
- Anti-corruption Support TF
- Governance & Institutions Assessment TF
- MAPS Action Plan Plan


IFC:

- PPP Legislation Advisory
- SOE Governance

Program Implementation Builds on Existing Foundations

- 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 key partners
- Proposed IBRD financing under the CPF would be up to US\$550 million with a possible IDA CRW access
- Leverages support from IFC and MIGA (e.g., agriculture, SME and analytics)

Programs Supported by Key Partners

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- **EU:** Judicial reform; MFA, Energy, EU compatibility
 - **EBRD:** Improve *Governance* and strengthen *Resilience* by leading in the restructuring of the banking sector, and enhancing energy security; enhance *Competitiveness* by supporting private firms in building capacity, and promoting commercialisation of public utilities and infrastructure
 - **EIB:** Focus on small businesses, transport and the management of water and energy: (i) diversify its energy sources by supporting projects such as the Ungheni-Chisinau gas interconnection; (ii) finance projects that are part of the country's Waste Management Strategy; (iii) expand and upgrade the Trans-European Transport Network Improved connections to contribute to meeting EU climate change goals and to safer journeys
 - **USAid:** Strengthened Participatory Democracy (citizen engagement, accountable governance and stronger democratic institutions: and competitiveness and market development), energy, agriculture
 - **France:** Budget support aligned with WB; support convergence towards European Union (EU) standards and to support transitions for a sustainable development; support the decarbonization of Moldova's economy by reforming the railway sector and developing renewable energies (with WB)
 - **IMF:** ECF/AFF support

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 through 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

Questions for Guidance

- Is the proposed strategic direction relevant and does it sufficiently build on prior engagement, WBG comparative advantage and complementarity with other DPs?
- Are the proposed Higher- level Outcomes(HLOs) and CPF Objectives appropriate and well formulated? Are they measurable?
- Will the proposed activities support achievement of CPF Objectives?
- Are the proposed program risks to program implementation appropriate?