

External Assistance Monitor No 3

How external assistance can be leveraged in the context of the 2022 crises

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Authors (in alphabetical order):

Alexandru Fală (Expert-Grup)
Dorina Baltag (IPIS)
Ecaterina Rusu (Expert-Grup)
Marina Soloviova (Expert-Grup)
Stas Madan (Expert-Grup)
Victoria Olari (IPIS)

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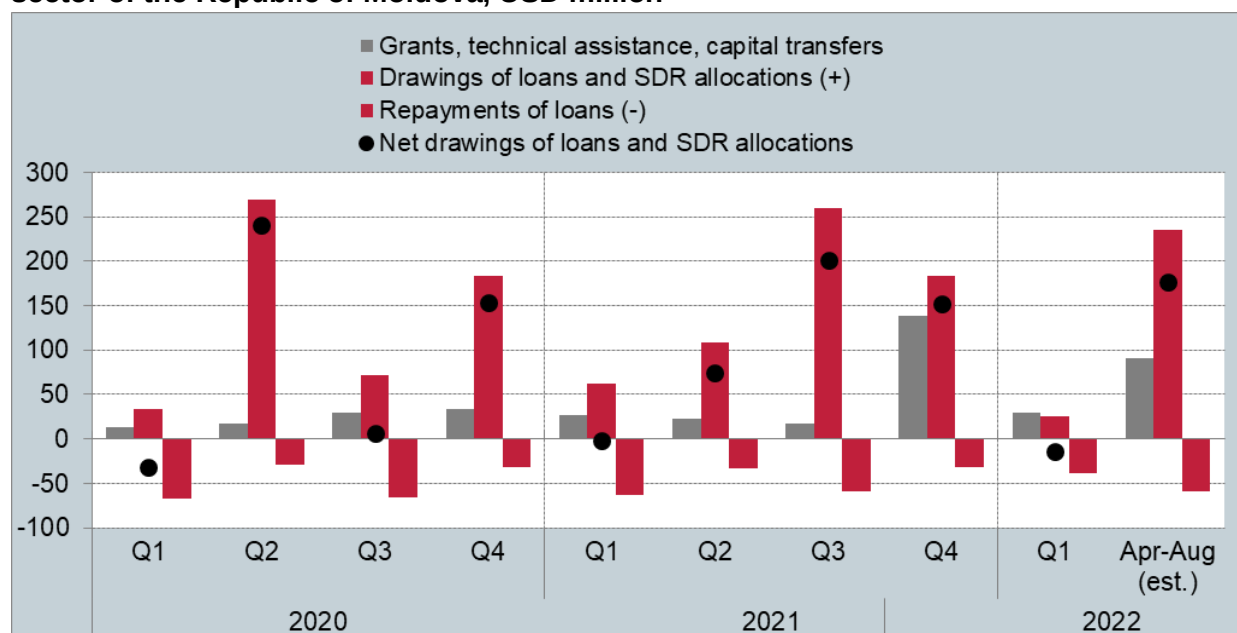
List of acronyms

AA – EU-Moldova Association Agreement
RDA – Regional Development Agency
AFD – French Development Agency
IDA – International Development Association
ANRE – National Energy Regulatory Authority
LPA – Local Public Authority
WB - World Bank
EIB – European Investment Bank
EBRD – European Bank for Reconstruction and Development
NBM – National Bank of Moldova
UNECE – United Nations Economic Commission for Europe
CFM – Moldova Railways
USDCs – Unified Service Delivery Centres
DG Clima – Directorate-General for Climate Action of the European Commission
DG NEAR – Directorate-General for Neighbourhood and Enlargement Negotiations of the European Commission
EUR – Euro National Ecological Fund
IFAD – International Fund for Agricultural Development
IMF – International Monetary Fund
NEF – National Environmental Fund
GIZ – German Agency for International Cooperation
EPF – European Peace Facility
MSMEs – Micro, Small and Medium Enterprises
OECD – Organisation for Economic Co-operation and Development
OMEAP – Office for the Management of External Assistance Programs
EaP - Eastern Partnership
GDP - Gross Domestic Product
EU - European Union
UNEP – United Nations Environment Programme
UNIDO – United Nations Industrial Development Organization
USAID – United States Agency for International Development
USD – US dollar

Key developments in external assistance

Since May 2022, the volume of external assistance received by Moldova's public sector increased significantly compared to the first quarter of the year. According to the statistics published by the NBM, the public sector (Government, NBM, local public authorities, public corporations) received external loan disbursements of USD 25 million in the first quarter of 2022, while making repayments (USD 39 million) that exceeded the amount of new loans obtained. The state also received grants and external technical assistance worth USD 30 million in the first quarter of 2022. According to Expert-Grup estimates based on the reports released by the NBM, the Ministry of Finance and the EU Delegation to the Republic of Moldova, between April and mid-August 2022, the public sector received disbursements of external loans and grants in the total amount of about USD 327 million¹ (IMF loans – USD 144 million, EU grant for budget support – USD 76 million, EU loan under macro-financial assistance – USD 36 million, a loan from the Government of Poland – USD 20 million, IDA loans – USD 9 million, EU grant under macro-financial assistance – USD 15 million, other loans and grants for investment projects – USD 27 million) (Figure 1). Thus, by mid-August 2022, the external public debt is estimated to have reached USD 2,855 million, which is about 20-21% of GDP, far from the critical limit of 55%.

Figure 1. Reimbursable and non-reimbursable external assistance received by the public sector of the Republic of Moldova, USD million



Source: Expert-Grup calculations based on data provided by the NBM, the Ministry of Finance and the EU Delegation to the Republic of Moldova

In addition to the loans and grants actually disbursed, the signing or negotiation of other major financing contracts has recently been announced (Table 1). Some will be intended for general budget support, others will be aimed at specific programs in the fields of SMEs, agriculture, roads, health, energy security, etc.

¹ This estimate does not include the value of humanitarian aid and technical assistance received in kind (in the form of goods and services).

Table 1. Main loans and grants planned/announced

Donor/ Creditor	Type of assist ance	Amo unt	Unit	Purpose	Stage	Situati on as of
World Bank (IBRD, IDA)	loan and grant	159	USD million	Budget support under the ' <i>Moldova – Emergency Response, Resilience and Competitiveness. Development Policy Operation</i> ' program. IBRD loan – EUR 41 million, IDA loan – EUR 101 million, grant – USD 9 million. The objectives are multiple and cover refugee hosting, strengthening social protection programs, renewable energy development, water and sanitation projects, rail transport development, etc. ²	The financing agreements were ratified by the Moldovan Parliament.	14.07. 2022
World Bank (IBRD, IDA)	loan	50	USD million	Funding for the <i>Micro, Small and Medium Enterprises (MSMEs) Competitiveness Project</i> . The project will help the country reduce the regulatory burden, increase access to finance, improve the export competitiveness of Moldovan enterprises, and respond promptly and effectively in the event of a crisis or emergency. ^{3 4}	The loan agreements were ratified by the Moldovan Parliament.	15.07. 2022
World Bank		55	USD million	A new agricultural project will be funded to increase competitiveness, resilience and market diversification. A major objective is to rehabilitate primary and secondary irrigation infrastructure, expand irrigated agricultural areas and transfer knowledge on water-saving technologies and practices. Other activities to be funded: modernisation of the food safety system, creation of the farmers' register and development of value chains. ⁵	Final negotiations, main funding priorities have been defined.	25.07. 2022
EIB	loan	150	EUR million	Rehabilitation, modernization and extension of three road sections under the ' <i>Moldova Roads IV</i> ' project. The feasibility study and project documentation will be prepared for nine other road sections. ⁶	The financing contract was ratified by the Moldovan Parliament.	15.07. 2022
EBRD	loan	300	EUR million	The ' <i>Security of Gas Supply</i> ' project implementation. The objective is to strengthen the energy security of the Republic of Moldova through the implementation of a short and medium-term financing mechanism, which will allow the creation of strategic gas stocks and the diversification of suppliers. ⁷	The loan agreement was ratified by the Moldovan Parliament.	15.07. 2022
USAID	grant	63	USD million	1) Additional funding of USD 16.7 million under the <i>Assistance Agreement for Strengthening Participatory Democracy</i> , increasing the total value of the agreement to around USD 113 million. Objective: increase citizens' involvement, strengthen the responsiveness of public institutions and reduce the vulnerability of democratic institutions and processes; 2) Additional funding of USD 46.3 million under the <i>Development Assistance Agreement for Sustainable</i>	Amendments to the two agreements were signed.	17.08. 2022

² <https://www.parlament.md/ProcesulLegislativ/Proiectedeactelegislative/tabid/61/LegislativId/6110/language/ro-RO/Default.aspx>

³ <https://www.parlament.md/ProcesulLegislativ/Proiectedeactelegislative/tabid/61/LegislativId/6134/language/ro-RO/Default.aspx>

⁴ <https://www.parlament.md/ProcesulLegislativ/Proiectedeactelegislative/tabid/61/LegislativId/6135/language/ro-RO/Default.aspx>

⁵ <https://www.madrm.gov.md/ro/content/4082>

⁶ <https://www.parlament.md/ProcesulLegislativ/Proiectedeactelegislative/tabid/61/LegislativId/6126/language/ro-RO/Default.aspx>

⁷ <https://www.parlament.md/ProcesulLegislativ/Proiectedeactelegislative/tabid/61/LegislativId/6105/language/ro-RO/Default.aspx>

				<i>Economic Growth Anchored in European Integration</i> , which increases the total funds committed to date under the agreement to around USD 153 million. Objective: increase access to the EU and other international markets and increase competitiveness in the transformative sectors. ⁸		
French Development Agency	loan	15	EUR million	General budget support to maintain public social, health, education services, etc. ⁹	The loan agreement was ratified by the Moldovan Parliament.	14.07. 2022
IMF	loan	27	USD million	Instalment under the current program. Budget support to protect vulnerable people from rising energy and food prices ¹⁰ .	The IMF mission reached a preliminary agreement with the Moldovan authorities.	10.08. 2022
European Union	grant	40	EUR million	Strengthening the capacities of the Armed Forces of Moldova through the provision of non-lethal equipment, supplies and services, including equipment-related training. ¹¹	Measure approved by the EU Council.	30.06. 2022
Government of Japan	grant	7	EUR million	Cover the urgent needs of the national health system by procuring medical equipment worth a total of JPY 1 billion (EUR 7.2 million) through the Japan International Cooperation Agency (JICA). ¹²	The intergovernmental agreement on the implementation of the National Health System Strengthening Program was signed.	17.08. 2022

In the economic sector, the 3rd edition of the External Assistance Monitor assesses the implementation progress of the current program with the IMF, the recent developments in the external assistance provided for budget support and the implementation of the main active external assistance projects in the following areas: transport infrastructure, access to finance and land registration and property valuation. By July 31, 2022, USD 224 million was disbursed under the current IMF arrangement out of the total volume of USD 784 million expected to be disbursed by the end of 2025. The results of the first evaluation of the IMF program implementation are generally positive, but there are outstanding commitments that had to be fulfilled by the end of June that were not completed and further efforts are needed to achieve them. As a result of this year's budget adjustments, the needed foreign assistance for budget support increased significantly (by MDL 5.2 billion in loans), and to date, Moldova has received about MDL 4 billion of the MDL 9.9 billion in foreign loans for budget support planned for this year. At the same time, out of the total amount of grants of MDL 3.75 billion, about MDL 3 billion is earmarked for direct budget support. The Ministry of Finance has already received two EU grants from these resources amounting to about MDL 1.8 billion (EUR 90 million). We note some

⁸ <https://mf.gov.md/ro/content/republica-moldova-va-beneficia-de-finan%C8%9Bare-suplimentar%C4%83-de-63-milioane-de-dolari-din-partea>

⁹ <https://www.parlament.md/ProcesulLegislativ/Proiectedeactelegislative/tabid/61/LegislativId/6090/language/ro-RO/Default.aspx>

¹⁰ <https://imf.md/press/pressw/press-220810.html>

¹¹ https://www.eeas.europa.eu/delegations/moldova/european-peace-facility-council-adopts-assistance-measure-support-moldovan_en?s=223

¹² <https://mfa.gov.md/ro/content/vicepremierul-nicu-popescu-japonia-este-un-partener-de-incredere-al-tarii-noastre-care>

progress within the Moldovan Railways Restructuring Project: the rehabilitation of the Tighina-Basarabeasca-Giurgiulești section started at the end of May 2022, and the Government initiated the reorganization of the 'Moldova Railways' state-owned enterprise into a joint-stock company. Under the Local Roads Improvement Project, we note some progress in both disbursements and works done. However, the overall project implementation progress is still rated as 'moderately satisfactory' due to the risk of not fully achieving the objectives within the agreed timeframe. Regarding the 16 investment credit lines re-credited by the state through financial institutions, where currently more than 5,200 businesses have active loans, the major challenge is the substantial increase in financing costs, given that the benchmark for interest rate setting is the base rate applied by the NBM. In this regard, the intervention of the Ministry of Finance is recommended to reduce the re-crediting rates and ease the burden on economic entities. Regarding the Land Registration and Property Valuation project, the annual pace of work is slow, and it is unlikely that all activities will be completed within the initially planned timeframe. Even taking into account the ongoing tenders, this will cumulatively represent only about 40% of the loan value contracted for the project, which is expected to be completed operationally in 2023.

In the social sector, the 3rd edition of the External Assistance Monitor assesses the progress of ongoing and new external assistance projects targeting important objectives such as strengthening the public health system and mitigating the socio-economic impact of the energy crisis, investments for the development of social and cultural sites in country's regions, legal approximation with the European Union, participatory democracy, modernisation of public services, resilience in the defence sector. The Republic of Moldova receives financial assistance from the European Union aimed at strengthening energy resilience and addressing socio-economic challenges, especially for vulnerable groups. Under the Financing Agreement between the Government of the Republic of Moldova and the European Commission on the State Building and Resilience Contract for the Republic of Moldova, the amount of EUR 75 million was disbursed to the accounts of the Ministry of Finance on August 19, 2022. This budget support will help vulnerable people affected by increased energy prices, enhance the state's capacity to provide services to vulnerable groups and support the efforts to ensure energy security in the Republic of Moldova. In addition, the authorities will take measures to alleviate the economic pressure associated with the flow of refugees from Ukraine. The Agreement between the Government of the Republic of Moldova and the Government of Japan for the implementation of the Health System Strengthening Program, valued EUR 7.2 million, was signed on August 17, 2022. The funds will be used to cover the urgent needs of the health system, including strengthening the capacity of the hospital sector by purchasing medical devices for five public health care facilities (PHCFs) in the Republic of Moldova. The assistance provided for the Armed Forces of the Republic of Moldova under the European Peace Facility (EPF), amounting to EUR 40 million, aims to strengthen the capacities of the Armed Forces of Moldova, enhance national security, stability, and resilience in the defence sector. The funds will be used to strengthen the armed forces' logistics, mobility, command and control, cyber defence, unmanned aerial reconnaissance and tactical communications units through the provision of non-lethal equipment, supplies and relevant services, including equipment-related training. This support measure will provide the Engineer Battalion with medical equipment and explosive ordnance disposal equipment. The Government Services Modernization Project worth USD 22.4 million, implemented by the eGovernance Agency with the financial support of the World Bank Group and the contribution of the Government of the Republic of Moldova, has achieved the halfway point of its implementation. As part of the project, in June 2022, the Cabinet of Ministers approved the concept of the information system 'Register of Driver Training Establishments and Trainers'. The project piloted 17 Unified Service Delivery Centres (USDCs), which operate in the country's

municipalities. The concept will be extended to 80 municipalities. Creating Unified Service Delivery Centres throughout the country aims to modernise public services provided to Moldovan citizens, improve their quality and accessibility, as well as to ensure inclusion and reduce the digital gap. The main challenge of this project is ensuring the ongoing training of the Unified Centers' employees in order to provide quality services to citizens. Particular emphasis should be placed on increasing citizens' confidence in the modernisation and digitalisation of public services and informing citizens about the benefits of using these services. Creating a feasible inter-institutional collaboration between different public service providers and other central and local government authorities is crucial throughout project implementation viable in order to increase service coverage and maximise impact.

In terms of environment and energy sectors, the current edition of the Monitor assesses the implementation of the projects carried out with the help of external partners that target objectives like ensuring people's access to water resources and modernising the waste management system, combating climate change, and increasing energy security. Overall, there is an increased interest from foreign donors in Moldova's environmental problems. As a result, the support in this area is consistent and well targeted. Two areas of increased assistance can be mentioned: access to water resources and waste management. At the same time, much attention is paid to projects aimed at strengthening the regulatory and institutional framework for environmental management. In fact, more significant progress was made in the area of regulatory adjustments in the first half of 2022. Thus, also thanks to external assistance, the Law No 1515/1993 on Environmental Protection was amended, which laid the foundations for the creation of the National Environmental Fund, which is going to replace the National Ecological Fund. This should lead to a more balanced distribution of the financial resources earmarked for addressing environmental problems. It should be noted that previously, about 90% of the expenditure under the National Ecological Fund was earmarked for water supply and sanitation projects, while other environmental areas remained underfunded.

Energy infrastructure projects are usually complex and take a long time to become operational. Nevertheless, some progress can be noted in relation to the projects described in the previous edition of the Monitor. Thus, the works on modernisation of the Chişinău electric power station have been started and also launched the pre-construction activities for Vulcăneşti-Chişinău overhead power line, as envisaged in the Power System Development Project. The necessary technical documents are currently being prepared to implement the Moldova Buildings Energy Efficiency Project, which aims to improve the energy efficiency of public buildings, including through the integration of renewable energy resources. 'CET-Nord' S.A. fully paid its historical debt to Moldovagaz thanks to EBRD funding under the Bălţi District Heating Project. On the other hand, the project aiming to improve the efficiency of Chisinau district heating through the modernisation of Termoelectrica's heat and power generation facilities was put on hold due to public procurement bottlenecks. At the same time, a new sovereign loan agreement was concluded with EBRD which provides for the possibility to borrow up to USD 300 million for the purchase and creation of strategic gas stocks.

Analysis of the main external assistance projects of the last period

Economic sectors

This chapter reviews the implementation progress of the current program with the IMF, recent developments in external assistance provided for budget support, as well as the implementation of the main active external assistance projects in the following economic development areas: transport infrastructure (locomotive procurement and rail infrastructure restructuring project and local roads improvement project), access to finance (COVID-19 emergency response and SMEs support project, rural resilience project, and 'Livada Moldovei' project), and land registration and property valuation.

IMF Memorandum on economic and financial policies

The additional resources made available under the IMF arrangement give more flexibility to the authorities to respond to the combined challenges faced by the national economy in 2022. Thus, by July 31, 2022, USD 224 million was disbursed out of the total volume of USD 784 million planned to be disbursed by the end of 2025 under the IMF arrangement¹³. It should be noted that the disbursements were made in accordance with the disbursement schedule set out in the Agreement. At the same time, the IMF has carried out the first program assessment in July this year to review the progress on the commitments that should have been achieved by the end of June 2022. This is the first of seven evaluations planned to be carried out by 2025. The assessment report is expected to be approved by the IMF Executive Board in September 2022, after which it will be possible to release the next instalment of about USD 27 million.¹⁴ A further instalment of around USD 27 million is planned to be disbursed in 2022 following the results of the second assessment of the program implementation. The funds for both instalments will be intended for budget support.

The official comments on the results of the first assessment of IMF program implementation convey a positive message¹⁵. Despite the difficult situation, the program commitments are being successfully delivered. The quantitative performance indicators are within the set limits, and the authorities are also making progress with their structural commitments to fighting corruption, promoting the rule of law, fiscal governance and financial sector oversight. The main achievements with a target completion date at the end of June 2022 are:

- the solvency assessment of insurance companies was completed;
- the regulatory framework on emergency liquidity assistance was amended;
- the guidelines on the submission of standardised financial statements were provided to the state-owned enterprises;
- the report on the execution of investment projects financed from extra-budgetary funds for 2021 was prepared;
- a comprehensive analysis of tax expenditure was carried out;

¹³ The first instalment of USD 79.8 million was disbursed in December 2022 and the second instalment of USD 144.03 million – in May 2022, corresponding to the instalment under the revised Agreement.

¹⁴ IMF carried out the first program assessment in July 2022 to assess the progress on the commitments that should have been achieved by the end of June 2022. This is the first of seven assessments planned to be carried out by 2024.

¹⁵ <https://www.imf.md/press/pressw/press-220810ro.html>

- the Regulation on keeping the Electronic Register of Employees was amended and the use of the system became mandatory for all state budget institutions;
- the Law on the Prosecutor's Office was amended and the Chief Prosecutor of the Anti-Corruption Prosecutor's Office was appointed.

At the same time, there are outstanding commitments to be completed by the end of June that were not finalised. Therefore, it is necessary to continue the efforts to operationalise the integrated taxpayers' register and to adopt a legal framework to strengthen the institutional autonomy of the National Bank of Moldova (NBM). With regard to the NBM autonomy, it should be noted that a draft law on the amendment of certain regulatory acts was submitted for public consultation¹⁶, which proposes the introduction/amendment of certain provisions of Law No 548/1995 on issues related to the interaction of the NBM with public authorities to exclude political interference in the decision-making process; new regulations on the mandate of members of the governing bodies; clarification of the mandate and competences of the NBM in the macro-prudential field.

External assistance for budget support

Following budget adjustments made during the year (May¹⁷ and August-September¹⁸), the reliance on external assistance for budget support increased significantly. The changes made to the state budget's revenue, expenditure and financing sources increased the approved state budget deficit by MDL 2.1 billion to MDL 17.24 billion or 6.2% of GDP planned for 2022. Thus, out of the total deficit, the basic component accounts for MDL 13.1 billion or 76.0%, while the projects financed from external sources account for MDL 4.13 billion or 24.0%. At the same time, important changes were also made to the sources of financing the budget deficit. In particular, domestic debt was reduced by MDL 4.9 billion on account of net issuance of government securities in the primary market, as a result of the significant increase in the cost of borrowing amid the tightening of monetary policy, and also the need to reduce the exposure to short-term financing in the debt structure. Consequently, the amendment of the state budget led to the planned increase in external borrowing inflows for budget support by about MDL 5.2 billion compared to the beginning of the year. Thus, this year's budget foresees a total amount of about MDL 9.9 billion in external borrowing for budget support¹⁹. The Republic of Moldova received disbursements of MDL 2.9 billion in external loans in the first half of the year. In addition, as of August 20, there are loans disbursed by the Government of Poland (EUR 20 million) and the first loan instalment of the EU macro-financial assistance of EUR 35 million. As of today (August 20), about MDL 4 billion were effectively disbursed out of the planned amount of external loans for budget support of MDL 9.9 billion for the whole current year. Given that a larger part of public expenditure is made in the second part of the year, the absorption level of these resources so far can be regarded as optimal.

In addition to loans, the amended 2022 budget also provides for external assistance in the form of grants amounting to about MDL 3.75 billion, which is almost 3 times more than the grant inflows planned at the beginning of the year (MDL 1.3 billion). Of these, the amount of grants for budget support is about MDL 3 billion, while the planned amount of grants for externally funded projects is MDL 748 million. The Republic of Moldova did not receive any grant money to

¹⁶ <https://particip.gov.md/ro/document/stages/proiect-de-lege-pentru-modificarea-unor-acte-normative/9249>

¹⁷ https://www.legis.md/cautare/getResults?doc_id=132657&lang=ro

¹⁸ https://gov.md/sites/default/files/document/attachments/subiect-02-nu-616-mf-2022_0.pdf

¹⁹ <https://mf.gov.md/sites/default/files/Informa%C8%9Bia%20SB%20sem%20I%202022%282%29%20%281%29.pdf>

the budget in the first half of the year. In July-August, the Government received two EU grants of EUR 90 million (about MDL 1.8 billion), namely: (i) EUR 15 million under the Grant Agreement between the Republic of Moldova and the European Union for macro-financial assistance to the Republic of Moldova, signed in Brussels on 22 June 2022²⁰, (ii) EUR 75 million under the State and Resilience Building Contract²¹. These resources will help mitigate the socio-economic consequences of high energy prices on the most vulnerable citizens and alleviate the economic strain resulting from hosting and supporting refugees. It should be noted that the amount of budget support grants included in the budget (as amended in May) was a total of EUR 68 million, but later the EU decided to increase the amount of grant support for state and resilience building from EUR 53 million to EUR 75 million²², which is also included in the latest draft budget amendment. In addition, the Republic of Moldova is to receive budget support grants amounting to EUR 50 million by the end of the year: (i) EUR 10 million grant from the Government of Romania and (ii) EUR 40 million grant from the Government of Germany. The support commitments are the results of two events held in Berlin and Bucharest as part of the Support Platform for the Republic of Moldova, launched by Germany, France and Romania.

Transport infrastructure

Locomotive procurement and rail infrastructure restructuring project (Moldovan Railways Restructuring Project), co-financed by EBRD and EIB.

- (1) As part of the modernisation of the railway infrastructure, the rehabilitation works of the Tighina-Basarabeasca-Giurgiulesti railway section started at the end of May 2022. Following the tender, the company 'Termizhol Zhondeu' LPP of Kazakhstan, part of the group of companies 'Komkor Management' LPP²³, was appointed as the contractor. The works shall be completed within three years;
- (2) As part of the 'Moldova Railways' State Enterprise reform, the Government initiated the reorganisation of the enterprise into a joint-stock company²⁴. According to the action plan on the implementation of the *Concept for the restructuring of the railway sector and the 'Moldova Railways' State Enterprise*, a decision on the reorganisation of the 'Moldova Railways' State Enterprise into a joint-stock company will be prepared and approved by October 2022. The French Development Agency (AFD) shall contribute an additional EUR 400,000 in technical assistance for the implementation of Moldova Railways reform and reorganisation plans²⁵. Moldova Railways also announced that the arrears on wages had been paid and the wages of the enterprise's employees increased²⁶, which was possible due to the external environment that facilitated the increase in rail freight volumes because of the war.

²⁰ https://www.eeas.europa.eu/delegations/moldova/eu-disburses-%E2%82%AC50-million-macro-financial-assistance-republic-moldova_en

²¹ https://www.eeas.europa.eu/delegations/moldova/eu-disburses-%E2%82%AC75-million-moldova-support-societal-and-state-resilience_en?s=80

²² https://neighbourhood-enlargement.ec.europa.eu/news/eu-further-increases-its-budget-support-moldova-providing-total-eu135-million-end-last-year-2022-07-15_en

²³

<http://www.railway.md/?l=ro&n=vzWPIAR0XhYGXkz17SplI3UMNtJVo%D1%83f1&m=he1LTanvnhpOzRSzAluhrQ==&p=vzWPIAR0XhYkR3JG4QR6RMux8gbQXZ7z&rand=675526398>

²⁴ https://www.legis.md/cautare/getResults?doc_id=130976&lang=ro

²⁵ <https://midr.gov.md/noutati/guvernul-francez-ofera-asistenta-tehnica-si-financiara-pentru-modernizarea-sectoarelor-energetice-si-feroviar-din-republica-moldova>

²⁶

<http://www.railway.md/?l=ro&n=l4Sju/hQoTk%D1%83E/OBbIYQy3UMNtJVo%D1%83f1&m=he1LTanvnhpOzRSzAluhrQ==&p=zANdepJNrVw=&rand=467087528>

Local Roads Improvement Project, funded by the World Bank. As of July 31, 2022, USD 54 million (68%) of the total project amount of USD 80 million was disbursed, which is 5 percentage points above the level recorded at the end of April this year²⁷. According to the revised plan, however, the disbursements were expected to reach about USD 69 million (86% of the planned USD 80 million) by the end of June 2022. The length of rehabilitated roads is 104 km out of 150 km (69%) (as of May 30, 2022), which is an improvement by 9 p.p. compared to mid-November 2021. The project started in 2016 and is scheduled to end in March 2023 – i.e. there are only 7 months left for its completion. Although some progress has been made this year, the overall dynamics of the project implementation is still assessed by the World Bank as ‘moderately satisfactory’ (as of June 6, 2022)²⁸ due to slow advancement and the risk of not fully achieving the objectives. The recommendation from the previous edition remains valid, namely the State Road Administration and the Ministry of Infrastructure and Regional Development should be actively involved in overseeing the works to avoid delays.

Access to finance

According to the data as of 30 June 2022, 16 investment credit lines re-credited by the state through financial institutions were available for financing the real sector²⁹. The total amount of resources to be disbursed to different categories of companies, both from direct funds of external loans and resources available for re-crediting from the accumulated revolving funds³⁰, amounted to MDL 1.8 billion³¹ or about MDL 290 million less than at the beginning of the year. In the first half of the year, 1,684 businesses were financed from these credit lines, which represents the 10th part of the total number of sub-projects financed cumulatively. At the same time, 5,263 sub-projects were in progress, with project implementation and loan repayments.

No new credit lines financed from state external loans were launched in the first half of the year. Of the 16 active credit lines, only the Rural Resilience Project, IFAD 7 and the ‘Livada Moldovei’ Project still have direct funding from loans. The remaining active projects use exclusively revolving funds for financing. An alarming situation is observed under the ‘Livada Moldovei’ project regarding the capacity to absorb funds in the near future. Although in the autumn of 2021, the Parliament approved the extension of the period during which loans will be granted under this project until May 2023, the progress of funds assimilation remains modest during the first half of the current year. Thus, an amount of EUR 2.53 million was disbursed from direct funds in the first half of 2022, with a remaining available balance of EUR 49.07 million. In addition to the issue of rising financing costs, other barriers relate to the cautiousness of businesses to make investments in this period, and higher market uncertainties for the horticultural sector (which is the main beneficiary of the project), including the new trade restrictions imposed by the Russian Federation.

A major current challenge for credit lines re-credited by the state is the substantial increase in the cost of financing in national currency for economic entities – both those

²⁷ <https://projects.worldbank.org/en/projects-operations/project-detail/P150357>

²⁸ <https://documents1.worldbank.org/curated/en/099335006062221742/pdf/P150357015d55a05b081d1096dea8484cf8.pdf>

²⁹ <https://ogpae.gov.md/wp-content/uploads/2022/08/Statutul-Liniilor-de-credit-30.06.2022.pdf>

³⁰ financial resources that have previously been used by economic entities and have been repaid and that are made available for other private sector financing. This is possible due to the fact that the external loans contracted by the state for the implementation of these projects have a period of 15-20 years, while the economic entities are usually granted financing for a maximum of 5-7 years. In other words, until the external loans contracted by the state are closed, this money is used to finance more businesses.

³¹ of which: EUR – 67.5 million. USD – 9.37 million. MDL – 258.7 million.

seeking to contract funds and those who already manage such loans due to the floating nature of interest rates. For example, the cost of investment loans has increased by about 2.5 times, from 7.75% to 19.1%, in the last 12 months (August 2022 compared to August 2021) for several categories of borrowers under projects such as 'Livada Moldovei', 'Filiera Vinului' or IFAD. The increase occurred at a time when the Ministry of Finance's re-crediting rates for participating financial institutions increased from 4.25% to 15.6%³². This phenomenon occurs because the interest rates for funds in MDL are based on the base rate set by the NBM and the operational expense coverage rates and, amid a substantial tightening of monetary policy, the rates skyrocketed. The current situation remains burdensome even though the Ministry of Finance, earlier this year, made a concession to the interest rate formula that reduced by 3.5%³³ the re-crediting rates for the investment credit lines financed in Moldovan lei from external state loan funds for real sector development. However, investment loans rates of over 19% are far from concessional, as external financing is supposed to be. Moreover, such a level of rates is even higher than the rates paid by companies on investment loans from the banks' own resources and significantly undermines the competitiveness of businesses. In addition to this, the main beneficiaries of credit lines from external resources are agro-industrial companies, which are also affected by drought. Therefore, we encourage the Ministry of Finance and OMEAP to consider further decreases in re-credit rates for the participating financial institutions. With the current high-interest rates and much lower cost of servicing the external loans under these credit lines, we believe that there is room for more substantial interest rate cuts to keep the businesses afloat in these challenging and complicated times.

At the same time, the situation highlights once again the lack of a sustainable benchmark against which the cost of resources in the financial market can be assessed. As it has been repeatedly demonstrated, the base rate is less relevant in a crisis. In this regard, we recommend that the NBM and other financial sector stakeholders work to identify a more sustainable indicator to which the floating interest rates on different types of loans can be linked. In the current circumstances, the recommendation made in the previous edition of the Monitor remains in force, namely the Government should request, and the development partners should provide, more concessional lines of credit to help maintain adequate access to finance for business development.

Land registration and property valuation

The 2019-2023 **Land Registration and Property Valuation Project**³⁴ continues to proceed at a slow pace, with the implementing agency being clearly behind schedule for completing all the activities within the originally planned timeframe. According to the latest available data of the 2021 progress report³⁵, the total project expenditure amounted to EUR 876 thousand in 2021, which is only about 24% of the budget approved at the beginning of the year. The total project expenditure between 14.01.2019 and 31.12.2021 amounted to EUR 1.2 million and the estimated value of works carried out and project commitments was about EUR 6.2 million (21% of the total loan amount) as of 31.12.2021. Even if we add to this amount the ongoing tenders of about EUR 5.8 million, this will cumulatively represent only about 40% of the contracted loan for the project. Key implementation constraints include the limited capacity of local cadastral companies to execute

³² <https://ogpae.gov.md/ratele-dobanzilor/>

³³ https://mf.gov.md/ro/content/ratele-de-recreditare-liniilor-de-credit-investi%C8%9Bionale-finan%C8%9Bate-%C3%AEn-lei-moldovene%C8%99ti-din?fbclid=IwAR2u59eUF0oWAAAtgoY7b9PjXrRhSBWAiwwQjckeTUyAZjILKZle_B10a3PU

³⁴ <http://www.asp.gov.md/ro/pief/date-generale>

³⁵ http://www.asp.gov.md/sites/default/files/pief/date-generale/rapoarte-de-progres/2021/01_RAPORT_PIEF_2021.pdf

the volume of work put forward for contracting, the poor state of the documentation held by local public authorities, the limited number of professionals for niche activities, or insufficient qualitative market data³⁶. For the future, a more thorough analysis at the pre-project stage is recommended, in order to set realistic targets to be achieved and to make full use of the borrowed resources.

Social sectors

This chapter reviews the implementation progress of the main ongoing external assistance projects in the social area. The projects under review target important objectives such as strengthening the public health system and mitigating the socio-economic impact of the energy crisis, as well as investing in the development of social and cultural sites in the country's regions.

The Agreement between the Government of Romania and the Government of the Republic of Moldova

The Agreement between the Government of Romania and the Government of the Republic of Moldova for the implementation of the Technical and Financial Assistance Program in the amount of EUR 100 million in grants from Romania to the Republic of Moldova was signed on February 11, 2022. This intergovernmental agreement aims to strengthen bilateral cooperation by intensifying cooperation in priority areas and providing non-reimbursable financial assistance from Romania for the implementation of projects that contribute to the development of the Republic of Moldova. The draft Agreement stipulates a grant of EUR 100 million for a period of 7 years from the date of its entry into force, with the possibility of extension for up to 3 years. The Agreement also involves a financial contribution of the Republic of Moldova, which cannot be less than 5% of the eligible expenditure for each project. In addition, the Government of the Republic of Moldova will be exempt from taxes, duties and any other payments on the equipment and materials provided by the Romanian project partners, public or private partners, financed by the grant.

The Agreement stipulates that the National Coordinating Authorities shall establish annual cooperation programs that include a list of projects proposed by the National Coordinating Authority of the Republic of Moldova and approved for funding by the Romanian Coordination Committee. In order to establish the mechanism for selecting, implementing and monitoring investment projects, intergovernmental discussions are taking place at this stage. Each party will establish a Coordination Committee, which will be responsible for the Agreement's efficient and effective implementation.

By financing social and infrastructure projects, this substantial assistance from Romania contributes to the development of Moldova's regions and villages. It includes the repair and/or construction of kindergartens, schools, sewage systems, water treatment plants, street lighting and social entrepreneurship projects. These are direct investments in social amenities that will reach people in the regions through the European Village program. Some of the money will be earmarked mainly for cultural projects, such as investments in the National Theatre, the Organ Hall and other cultural venues, media projects and other projects to be identified in bilateral negotiations.

³⁶ Idem

This assistance program is an opportunity to supplement the Regional and Local Development Fund. In the light of the past experience, the major challenge continues to be the capacity utilisation of the available resources. To minimise risks, it is essential to prevent the bureaucratic project coordination and evaluation process, which could slow down the implementation.

Social resilience

The Financing Agreement ‘State Building and Resilience Contract for the Republic of Moldova’ ³⁷. Following the disbursement of the first instalment of EUR 60 million in December 2021, Amendment No 1 to the Financing Agreement between the Government of the Republic of Moldova and the European Commission on the State Building and Resilience Contract for the Republic of Moldova was signed on 13th of July. The amendment provides additional funding in the amount of EUR 75 million (grant), thus increasing the support program budget to EUR 135 million. The objective remains to strengthen Moldova's long-term socio-economic recovery, energy security and energy transition.

The authorities announced that the amount of EUR 75 million was disbursed to the accounts of the Ministry of Finance on August 19, 2022. Similar to the first instalment, this budget support, in the form of a grant, will support the vulnerable population affected by increased energy prices, enhance the state's capacity to provide services to vulnerable groups and support the efforts to ensure energy security in the Republic of Moldova. In addition, the authorities will take measures to alleviate the economic pressure associated with the influx of refugees from Ukraine.

Public health

The Agreement between the Government of the Republic of Moldova and the Government of Japan for the implementation of the Health System Strengthening Program was signed on August 17, 2022³⁸. The agreement aims to extend the Japanese economic cooperation by contributing to the implementation of the Economic and Social Development Program by providing financial means to be used to meet the urgent needs of the health system, including strengthening the capacity of the hospital sector, by purchasing medical devices for five public health care facilities (PHCFs) of the Republic of Moldova (PHCF Institute of Emergency Medicine, PHCF Republican Clinical Hospital ‘Timofei Moşneaga’, PHCF Institute of Mother and Child, PHCF Institute of Oncology, PHCF Municipal Clinical Hospital ‘Holy Trinity’), which provide health care to a large number of people, including refugees from Ukraine.

The proposed Agreement was followed by a needs assessment carried out in the beneficiary PHCFs by a team of experts from Japan, and a list of priority medical devices was put together and subsequently agreed by the Ministry of Health. To take advantage of the grant assistance provided, once the Agreement is signed, several steps must be completed, under the terms specified in the Agreement, including the establishment of the Advisory Committee, disbursement of funds, procurement, supply, and subsequent intended use of the medical devices concerned, with appropriate reporting.

³⁷ <https://gov.md/sites/default/files/document/attachments/subiect-18-nu-494-maeie-me-2022.pdf>

³⁸ <https://gov.md/sites/default/files/document/attachments/subiect-23-nu-471-maeie-ms-2022.pdf>

The Government of the Republic of Moldova is committed to take the necessary measures to cover all costs, other than those covered by the grant and accrued interest, necessary for the implementation of the Program. At the same time, when implementing the international treaty, tax and customs facilities related to the implementation of the ongoing technical assistance and investment projects will be applied, which are covered by the international treaties to which the Republic of Moldova is a party. Also, the Agreement shall be reflected in the state budget as externally funded according to the provisions of the regulatory framework. The amount of funds provided by the Government of Japan as a grant is JPY 1 billion, equal to EUR 7.2 million.

Governance, anti-corruption and human rights

This section assesses the progress of the ongoing external assistance projects aimed at improving legal approximation with the European Union, alignment with European standards in the areas of human rights, rule of law and democracy, modernisation of public services and resilience in the defence sector.

Additional USAID funding of USD 63 million³⁹

This funding is provided by USAID to support the Republic of Moldova in its European course and in response to the multiple crises faced by the Republic of Moldova. The amendments to the 2016 Assistance Agreements adopted on August 18, 2022 supplement the budget for development programs in the Republic of Moldova with additional USD 63 million. Most of the funds, USD 46.3 million, are earmarked for Moldova's sustainable economic growth and will make the Moldovan economy more resilient. At the same time, USD 16.7 million are earmarked for programs aimed at strengthening participatory democracy and governance and enhancing the ongoing justice system reforms.

The priority programs aim to support independent media outlets and establish a media sector that is more resilient to political and financial pressures and less susceptible to disinformation. The funds shall also cover projects aimed at strengthening reliable electoral processes and fair political competition.

The program supports the immediate needs of local governments dealing with an influx of refugees, including in rural areas, to be more efficient, transparent, and accountable, including community development, infrastructure projects and support for businesses.

Resilience in the defence sector

The assistance provided to the Armed Forces of the Republic of Moldova under the European Peace Facility (EPF), amounting to EUR 40 million, aims to strengthen the capacities of the Armed Forces of Moldova and enhance the national security, stability, and resilience in the defence sector. The funds will be used strengthen the armed forces' logistics, mobility, command and control, cyber defence, unmanned aerial reconnaissance and tactical communications units through the provision of non-lethal equipment, supplies and relevant services, including equipment-related training.

³⁹ <https://mf.gov.md/ro/content/republica-moldova-va-beneficia-de-finan%C8%9Bare-suplimentar%C4%83-de-63-milioane-de-dolari-din-partea>

This support measure will complement the EUR 7 million assistance measure adopted in December 2021, which strengthens the capacities of the Military Medical Service and the Engineering Battalion of the Armed Forces and finances the provision of medical equipment and explosive ordnance disposal equipment for the Engineering Battalion.

Legal approximation with the European Union

The project ‘Support for structured policy dialogue, coordination of the implementation of the Association Agreement and enhancement of the legal approximation process’ was launched in June 2020 and is funded by the European Union for a five-year period until June 2025 with a budget of EUR 5 million⁴⁰. The project aims directly at strengthening the capacities of the Government and relevant institutions to implement the EU-Moldova Association Agreement (AA). Through this project the EU intends to provide ongoing support on the prioritisation, conceptualisation, formulation and implementation of policies, strategies, and action plans to ensure good governance as well as the effectiveness and efficiency of government decision-making – especially in focal areas. The main partners of the project are the Ministry of Foreign Affairs and European Integration of the Republic of Moldova, the State Chancellery, the Ministry of Economy and Infrastructure, the Ministry of Finance, the Parliament of the Republic of Moldova and other relevant ministries and agencies.

The project activity consists of 4 components that contribute to the further enhancement of structured policy dialogue with civil society, the improvement of the policy-making mechanisms for proper budgeting of strategic documents, the support of the legal approximation process through the provision of technical expertise and capacity building, and the upgrading of the public administration IT systems supporting the implementation of the Association Agreement.

The project will gain new momentum once the Republic of Moldova becomes an EU candidate country and needs to adopt and implement the EU acquis. Members of the Moldovan Parliament, Parliament staff and experts from the European Union met prior to the European Council Summit to discuss the Parliament's role in implementing the EU policies and the EU acquis relevant to the association process.

Modernisation of Government Services

The Government Services Modernisation Project, worth USD 22.4 million⁴¹, is implemented by the eGovernment Agency with the financial support of the World Bank Group and the contribution of the Government of the Republic of Moldova. The implementation period is June 2018 – June 2023. The overall objective of the project, which has reached the mid-point of implementation, is to improve access, efficiency, and quality of public service delivery of the Government of Moldova.

As part of the project, in June 2022, the Cabinet of Ministers approved the concept of the information system ‘Register of Driver Training Establishments and Trainers’. The document is intended to facilitate the exchange of information and provide needed cooperation environment for its storage and review. The information system will provide tools for document flow control and decision-making policy organisation, as well as reporting tools, etc. At the same

⁴⁰ <https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?ADSSChck=1518596045504&do=publi.detPUB&searchtype=AS&zgeo=35503&aet=36539&ccnt=7573877&debpub=&orderby=upd&orderbyad=Desc&nbPubliList=15&page=1&aoref=139112>

⁴¹ <https://www.egov.md/ro/communication/news/misiunea-bancii-mondiale-evaluat-stadiul-de-modernizare-serviciilor>

time, the system is part of the information resources of the Ministry of Education and Research and integrated with other information systems to ensure data exchange.

The project piloted 17 Unified Service Delivery Centres (USDCs), which operate in the country's municipalities and the concept will be extended to 80 municipalities. Creating Unified Service Delivery Centres throughout the country are to modernise public services provided to Moldovan citizens, increase their quality and accessibility, as well as to ensure inclusion and reduce the digital divide. This innovative model of public service delivery shall facilitate citizens' access to a wide range of public services provided by the Public Services Agency and the National Social Insurance House, and the range of services shall be further extended by developing partnerships with other service providers.

The main challenge of this project is ensuring the ongoing training of the Unified Centers' employees to provide quality services to citizens. Particular emphasis should be placed on increasing citizens' confidence in the modernisation and digitalisation of public services and informing citizens about the benefits of using these services. Creating a feasible inter-institutional collaboration between different public service providers and other central and local government authorities is crucial throughout project implementation in order to increase service coverage and maximise the impact.

Environment protection

This sub-chapter details the progress made in implementing the environmental projects described in the Monitor's previous edition. Overall, we note that the projects implemented with the help of external partners address important environmental issues faced by the country: ensuring access to water (World Bank and KfW funded projects) and waste management (the EBRD funded project). At the same time, the low forest cover ratio is a major problem, and the efforts made in this respect are yielding modest results. Nevertheless, the amendment of the law and the conditions for the establishment of the National Environmental Fund, which will replace the National Ecological Fund, seem to set the premises for solving this problem. Thus, while about 90% of the financial resources of the National Ecological Fund were earmarked for the expansion of water supply systems, a much more balanced distribution of funds is planned for the National Environmental Fund, which will be distributed for environmental protection, climate change and sustainable management of natural resources. It should be noted that the legal amendments were made with EU support in March 2022 and set up the conditions for the creation of the National Environmental Fund.

The 'Security of water supply and sanitation in Moldova' project⁴² aiming to increase the population's access to water resources is at the initial implementation phase. The objectives of the project are: (i) to increase access to safely managed water supply and sanitation in selected rural areas and towns to strengthen water supply and sanitation capacities at the national and local levels (creation of a new water supply network in Râșcani district and extension of the water supply network in Cahul district and Vulcănești; construction of new water treatment plants in Soroca and Comrat; and (ii) to create conditions for a prompt and efficient response to crises. The implementation of the project will increase the population's access to water, which is an important step towards increasing resilience to climate change. Water is a sensitive resource

⁴² <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/760601643665383288/moldova-water-security-and-sanitation-project>

to climate change. The main implementation partner is the International Development Association (part of the World Bank Group) and the project partner is the Austrian Development Agency. The financing of the project is provided by IDA (a loan of USD 50 million and a grant of USD 1.8 million); co-financing – from the Austrian Development Agency (USD 1.8 million), and a contribution from the beneficiary LPAs (USD 1 million). The project shall be implemented for 5 years (2022-2027). To implement the ‘Moldova – Water Security and Sanitation’ Project, the Government of the Republic of Moldova approved the draft law on the ratification of the Financing Agreement between the Republic of Moldova and the International Development Association⁴³ on 1 June 2022.

The Moldova Solid Waste Project⁴⁴ is an important support in the context of the implementation of the 2013-2027 National Waste Management Strategy. In 2021, EBRD proposed to finance investments related to the improvement of solid waste management services and to the creation of an integrated solid waste management system in the regions. This proposal is in line with the Waste Management Strategy of the Republic of Moldova and Moldova's commitments under the Association Agreement with the EU. The project aims to (i) introduce sustainable waste management practices by closing down the existing non-compliant landfills and creating an infrastructure aligned with EU standards, by expanding recycling and upgrading the existing landfills, and to (ii) contribute to the reduction of greenhouse gas emissions by collecting and using landfill fermentation gas. The decision concerning the funding for the Republic of Moldova is expected to be considered and approved by the EBRD Board of Directors⁴⁵ on 7 September 2022.

The financial support under the project shall be directed towards supporting the regionalisation of the waste management process. The 2013-2027 National Waste Management Strategy proposes to regionalise waste management by dividing the country into 8 waste management regions. The Moldova Solid Waste Project involves total capital expenditure of around EUR 103 million. The project instalments shall be directed towards the financing of the waste management regions, which are to be proposed by the Government of Moldova and validated by feasibility studies. Thus, the first project instalment, an independent loan of EUR 25 million, shall be provided by EIB and earmarked for investment in the Waste Management Region 5, which includes Ungheni, Nisporeni and Călărași districts. The rest of the amount is planned to be covered by grants from other international donors (EBRD, GIZ, Czech Development Agency) as well as from Moldovan sources.

The ‘Improvement of water infrastructure in Central Moldova’⁴⁶ project aims to increase the population's access to water resources. The project provides for the construction of the 52.93 km long Chișinău-Strășeni-Călărași main aqueduct, which will supply water to the inhabitants of Strășeni and Călărași towns. The project shall be implemented between 2019 and 2023. By 2023, the Chișinău-Strășeni-Călărași main aqueduct shall be finalized and put into operation. The project is supported by the German Government and financed by the KfW bank, which provided a grant of EUR 15 million. The Republic of Moldova is required to contribute 10% of the cost of the project. In the Republic of Moldova the project is implemented by the Regional Development Agency “Centru”.

⁴³ <https://midr.gov.md/noutati/guvernul-a-dat-unda-verde-ratificarii-acordului-de-finantare-pentru-realizarea-proiectului-securitatea-aprovizionarii-cu-apa-si-sanitatie-in-moldova>

⁴⁴ <https://www.ebrd.com/work-with-us/projects/psd/52512.html>

⁴⁵ <https://ewsdata.rightsindevelopment.org/projects/52512-moldova-solid-waste-project/>

⁴⁶ <https://mediu.gov.md/ro/content/proiecte-in-domeniul-mediului-finantate-din-surse-externe>

The ‘Improvement of water infrastructure in Central Moldova’ project is progressing with the design work, but there are a number of issues that need to be addressed to ensure the sustainability of the built infrastructure. Among other things, the main aqueduct needs to be declared a public utility of national interest. Although the process is underway, the draft GD on granting the status of a public utility to the main water supply system has not been drafted yet. It is also unclear who shall be the owner of the water supply system, while the establishment of the future operators which will manage the water supply service is at an early stage. It is also necessary to adjust water tariffs to ensure the functionality of the water supply infrastructure.

The aim of the ‘European Union for the Environment’ Action (EU4Environment) ⁴⁷ is to support the creation of tools and mechanisms to better manage environmental risks and increase opportunities to promote green growth. The program assists six countries: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. The project implementation period is from 2019 to 2022. The total cost of the program is EUR 20 million and the EU contribution is EUR 19.5 million. The EU4Environment Action is structured around five thematic areas/clusters of work, called ‘Results’:

1. Greener decision-making;
2. Circular economy and new growth opportunities;
3. An environmental level playing field;
4. Ecosystem services and livelihoods;
5. Regional knowledge sharing and coordination.

Although the EU plays a central role in implementing the project, it is also supported by other international organisations. The EU partners in the implementation of this program are the United Nations Economic Commission for Europe (UNECE), the United Nations Environment Programme (UNEP), the United Nations Industrial Development Organisation (UNIDO), the OECD and the World Bank. The partner organisations are responsible for implementing the results of the program. UNECE, UNEP and UNIDO are involved in the implementation of results 1 and 2; OECD is the implementing organisation for results 3 and 5, and the World Bank is ‘responsible’ for result 4. The OECD also facilitates interaction between partners and coordinates communication and visibility activities.

One of the most important achievements in the first half of 2022 with the support of the ‘EU4Environment’ program refers to the legal amendments that lay the groundwork for the establishment of the National Environmental Fund. Thus, the Parliament of the Republic of Moldova amended the Law No 1515/1993 on Environmental Protection in February and March 2022. The amendments to the Law lay the groundwork for the creation of the National Environmental Fund, which will replace the National Ecological Fund. The new Fund shall focus exclusively on environmental protection, climate change and sustainable resource management. Previously, about 90% of the expenditure under the National Ecological Fund was for water supply and sanitation projects. While water supply and sanitation projects are important, the changes will also ensure an increase in the funding of other important environmental areas. The legal amendments also set the scene for the establishment of the administrative structure of the National Environmental Fund.

⁴⁷ <https://www.eu4environment.org/ro/about/>

The European Union for Climate (EU4Climate) project⁴⁸ focuses on supporting measures to increase resilience to climate change. The EU4Climate project supports the governments of the six Eastern Partnership (EaP) countries: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. The project aims to contribute to climate change mitigation and adaptation as well as to the development of low-emission and climate-resilient economies in all six EaP countries, in line with the 2015 Paris Agreement on climate change. The project will support the countries to integrate the goals of gas emission reduction and climate resilience into their development policies and action plans, improve and strengthen climate policies and adjust the legal framework. The project runs from 2019 to 2022. The cost of the project is around EUR 1 million. The initiative is implemented by the United Nations Development Programme. The Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) and the Directorate-General for Climate Policy (DG Climate) of the European Commission guide the implementation of the project. The project partners include the OECD, GIZ and the International Energy Agency.

A study on Integrating Climate Change into Energy Policies was developed under this project in April 2022. At the same time, EU4Climate experts developed a set of recommendations aimed to improve the legislation, to integrate climate-related indicators into the energy sector's strategic planning, and to strengthen institutional capacities and policy planning capabilities among local public authorities. The experts also developed the Guidelines on strengthening climate and energy planning processes⁴⁹. As a methodological document, the main objective of the guideline is to ensure coherence during the development of the governance framework in these areas.

Energy sector

This sub-chapter details the implementation progress of the energy projects described in the Monitor's previous edition, as well as the new concluded agreements. On the whole, we note progress within the Power System Development Project: the modernisation of the Chişinău electric power station has started and also were initiated the pre-construction activities for the Vulcăneşti-Chişinău power line. At the same time, necessary technical documents are being prepared for the implementation of the Moldova Buildings Energy Efficiency Project, which aims to improve energy efficiency of public buildings, including through the integration of renewable energy resources. At the same time, the Chisinau district heating efficiency improvement project was put on hold due to public procurement bottlenecks. Also, in the context of the risk of possible limitations/interruption in the supply of natural gas, a new loan agreement with EBRD was ratified – financing that will be channelled for the creation of natural gas stocks.

An important element in making the national energy system more efficient is the 'Bălţi District Heating System – Phase II'⁵⁰ project. The Government of the Republic of Moldova and the EBRD signed the loan agreement for the implementation of the 'Bălţi District Heating – Phase II' project on December 24, 2021, and consequently the Government approved the draft for the ratification of this agreement on March 30, 2022. The Parliament ratified the loan agreement between Moldova and EBRD for the rehabilitation of the Bălţi North Thermal Power Plant on April 14, 2022. The project is an additional investment in the Bălţi heating system under the EBRD's

⁴⁸ <https://www.undp.org/ro/moldova/projects/eu4climate>

⁴⁹ <https://www.undp.org/ro/moldova/publications/ghid-privind-consolidarea-proceselor-de-planificare-%C3%AEn-domeniile-climei-%C8%99i-energie>

⁵⁰ <https://www.ebrd.com/work-with-us/projects/psd/52019.html>

Green Cities Program. The program aims to support the member cities (of the program) in tackling environmental problems by developing action plans and investments in response to urban challenges. The new EUR 17 million investment builds on the improvements achieved in the first phase of the project, completed in 2019, which resulted in reduced natural gas consumption, lower carbon emissions and improved heating services.

EBRD shall provide a loan of EUR 14 million, alongside the Green Climate Fund financing of EUR 1 million⁵¹. The loan will be supplemented by a EUR 2 million grant from the Eastern Europe Energy Efficiency and Environment Partnership Fund. The project will allow the utility billing for each apartment based on individual consumption and will optimise the combined heat and power production. The project will also help to restore the district hot water supply, which was discontinued more than 20 years ago.

At the same time, 'CET-Nord' S.A. fully paid its historical debt to Moldovagaz thanks to EBRD financing. On July 28, 2022, 'CET-Nord' S.A. transferred to Moldovagaz the last instalment of a MDL 77 million debt. This will allow boosting of the operational activity of the company, as it will be possible to lift the seizure of CET-Nord's bank accounts that was applied by the courts following the requests of Moldovagaz.

The Power System Development Project funded by the World Bank (WB) is in progress. As of July 31, 2022, USD 5.6 million of the total project amount of USD 70 million was disbursed⁵². After the winner of the tender was selected in January 2022, the works for the modernisation of the Chişinău power station were started. At the same time, pre-construction activities for the 400 kV Vulcăneşti-Chişinău overhead power line (400kV OHTL) have been initiated, such as: the adoption of a legal framework for declaring the overhead power line to be a public utility of national interest⁵³; topographical investigation works; preparation of the detailed technical design. As a strategic project that will enable effective operation of cross-border interconnection with Romania's power system, it is critical that the construction activities are completed on time, and that all the requirements set out in the terms of reference are met to ensure the durability and endurance of the 400 kV OHTL. An important achievement that will also contribute to the monetisation of this project is the amendment done to Law No 107/2016 on Electricity⁵⁴, which allows tendering to develop the market competition and diversify suppliers.

The project aiming to improve the efficiency of the Chisinau district heating system, funded by the World Bank, was put on hold. After almost two years since the agreement was signed, we note that the funding provided under the loan agreement has not been disbursed yet; as of July 31, 2022, only USD 352 thousand (representing 0.3% of the total amount) was disbursed under the loan.⁵⁵ After the decision to terminate the procurement contract for component 1 of the project – rehabilitation of the power units of Termoelectrica S.A.⁵⁶, no other public procurement was launched and no modifications to the initial technical specifications were done. Thus, it was decided that the investment plan initially envisaged for this project component will be revised by the World Bank, and only after the project activities will resume. However, it is important to note that, considering the risks related to the end of the operational life of its power

⁵¹ <https://balti.md/berd-si-donatorii-sustin-noile-modernizari-ale-sistemului-de-incalzire-centralizata-in-balti/>

⁵² <https://projects.worldbank.org/en/projects-operations/project-detail/P160829>

⁵³ https://www.legis.md/cautare/getResults?doc_id=131404&lang=ro

⁵⁴ https://www.legis.md/cautare/getResults?doc_id=132692&lang=ro#

⁵⁵ <https://projects.worldbank.org/en/projects-operations/project-detail/P172668>

⁵⁶ <https://mepiu.md/rom/noutati/rezolutiunea-contractului-pentru-reconstructia-unitatii-nr-2-si-reparatia-capitala-a-unitatii-nr-3>

generation facilities, Termoelectrica S.A. initiated a tender outside the World Bank project. The works cover only the repairs for a small part of the originally planned activities and the costs are covered by the company's resources. It should be noted that the winner of the tender (through negotiation) became the same company that originally won the tender under the World Bank project⁵⁷.

Respectively, no progress has been made on the implementation of another core component of this project that refers to energy efficiency and energy conservation investments in selected public and residential buildings. Moreover, the investment envelope for this project component might be subject to changes, considering the situation with the component one.

The stage is now being set for the implementation of the Moldova Buildings Energy Efficiency Project, which envisages allocation of EUR 75 million to improve the energy performance of buildings owned/managed by public authorities. Thus, this year, the draft Terms of Reference for the selection of a consultant who will provide the necessary support for the preparation of the operational manual and other internal documents necessary for the launch of the project was submitted for approval⁵⁸.

Another important loan agreement for the energy sector ratified in July this year, is the one concluded between the Republic of Moldova and EBRD for the implementation of the 'Security of Natural Gas Supply' Project⁵⁹. Thus, in the context of the risk related to possible limitations/interruption in the supply of natural gas, especially during the cold season, the project provides financing for the purchase and creation of strategic natural gas stocks in neighbouring countries. At the same time, the implementation of the project shall facilitate the diversification of the country's natural gas suppliers and supply sources. The agreement involves a EUR 300 million loan⁶⁰, divided in two tranches:

1. The first tranche of EUR 100 million (the diversification one) will be used for the creation of strategic gas stocks to avoid seasonal price spikes and improve energy security;
2. The second tranche of EUR 200 million (the emergency one), will be disbursed only on request, for emergency gas procurement in case of possible supply limitations/interruption.

An advantage of this loan is the revolving credit facility (reimbursement – reuse), which allows, with the prior agreement of the lender, multiple drawdowns and repayments within the commitment period (3 years), subject to the limit set.

A number of specific commitments condition the money disbursement under this loan agreement. The measures and deadlines are reflected in the Energy Sector Reform Action Plan. Thus, the disbursement of the first drawdown under the diversification instalment is conditional on two measures with the implementation deadline set for July 31, 2022, namely (i) strengthening the corporate governance and transparency of the Energocom S.A. (action in progress), and (ii) adoption of amendments to Law No 108/2016 on natural gas to ensure its consistency with the

⁵⁷ <https://termoelectrica.md/procedura-de-licitatie-privind-lucrarile-la-blocul-energetic-nr-3-a-fost-finalizata/>

⁵⁸ https://midr.gov.md/files/shares/Raport_privind_realizarea_m_surilor_de_politici_sectoriale_pe_anul_2021_n_domeniul_energie.pdf

⁵⁹ https://www.legis.md/cautare/getResults?doc_id=132281&lang=ro

⁶⁰ Borrowing costs: one-off fee of 1% of the maximum loan amount; instalment 1: floating interest rate (Euribor 6m with minimum 0 + margin 1% p.a. + a commitment fee of 0.5% p.a. of the total amount undisbursed under the instalment. Instalment 2, similar conditions, except that the costs only start to accrue once EBRD has received a confirmation of the release of funds.

Energy Community acquis and the Energy Package III (action completed⁶¹). Therefore, in order to make full use of the funding provided under this agreement, including the emergency instalment, all the measures set out in this plan must be fully implemented.

Although the project is an interim solution to ensure the security of natural gas supply, making use of this loan becomes imperative. In the context of the energy crisis triggered in 2021 and catalysed this year by the war in Ukraine, the creation of stocks will provide certainty of gas supply over some time and predictability of gas prices during market disturbances.

At the same time, if gas prices continue to grow, the loan financing might become insufficient to secure the acquisition of gas volume needed for 2 months of winter. Price volatility is high and price increase can significantly reduce the capacity to cover the costs of purchasing and storing the intended 350 million m³ of gas. Moreover, the storage options are currently limited to Romania, given the continuing insecurity in Ukraine. The storage costs are higher in Romania, but it has sufficient storage capacity. In addition, storing natural gas in Romania is also strategic due to the Iași-Ungheni-Chișinău gas pipeline. If the worst-case scenario of Gazprom PJSC cutting off gas supplies were to become a reality, one constraint would be the inability of this pipeline to meet the consumption needs of the entire country, which is why storing gas in Ukraine is also important.

⁶¹ https://www.legis.md/cautare/getResults?doc_id=131404&lang=ro