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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX**

amending Commission Implementing Decision C(2021) 9348 final as regards increasing the Union assistance to the Republic of Moldova for 2021

**Action Document for State and Resilience Building Contract for the Republic of Moldova**

**INDIVIDUAL MEASURE**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and measure in the sense of Article 23 (3) of the NDICI-Global Europe Regulation.

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>1. Title CRIS/OPSYS Basic Act</b>	State and Resilience Building Contract for the Republic of Moldova CRIS number: NDICI-GEO-NEAR/2021/043-646 OPSYS reference number: ACT- 60518 linked to SCR.DEC.043646.01; JAD.1030273  Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
<b>2. Team Europe Initiative</b>	No
<b>3. Zone benefiting from the action</b>	The Action shall be carried out at the following location: The whole territory of the Republic of Moldova
<b>4. Programming document</b>	Multiannual Indicative Programme (MIP) 2021-2027 for the Republic of Moldova <sup>1</sup>
<b>5. Link with relevant MIP(s) objectives/expected results</b>	Priority area 1: Resilient, sustainable and integrated economy Priority area 3: Environment and climate resilience Priority area 5: Resilient, fair, gender-equal and inclusive societies
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	230- Energy, 510- Budget Support, 730- Reconstruction and Rehabilitation
<b>7. Sustainable Development Goals (SDGs)</b>	Main SDGs: - SDG 1 End poverty in all its forms everywhere

<sup>1</sup> The Multiannual indicative Programme will be adopted in the first half of 2022

	<p>Other significant SDGs:</p> <ul style="list-style-type: none"> <li>- SDG 2 Zero hunger</li> <li>- SDG 5 Achieve gender equality and empower all women and girls</li> <li>- SDG 3 Good health and well-being</li> <li>- SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</li> <li>- SDG 10 Reduced inequalities</li> </ul>			
<b>8 a) DAC code(s)</b>	<p>15110 - Public sector policy and administrative management  15142 - Macroeconomic policy  15170 - Women's rights organisations and movements, and government institutions  16010 - Social protection</p>			
<b>8 b) Main Delivery Channel</b>	<p>12000 – Recipient government</p>			
<b>9. Targets</b>	<p><input type="checkbox"/> Migration  <input checked="" type="checkbox"/> Climate  <input checked="" type="checkbox"/> Social inclusion and Human Development<sup>2</sup>  <input checked="" type="checkbox"/> Gender  <input type="checkbox"/> Biodiversity  <input type="checkbox"/> Human Rights, Democracy and Governance</p>			
<b>10. Markers (from DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>

<sup>2</sup> For the Neighbourhood, activities related to education shall be marked as part of the “Social Inclusion and Human Development” target, in line with the NDICI-GE programming guidelines.

	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>11. Internal markers</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Digitalisation Tags: digital connectivity digital governance digital entrepreneurship job creation digital skills/literacy digital services	<input type="checkbox"/>	<input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	<u>Connectivity</u> Tags: transport people2people energy digital connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	COVID-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<b>BUDGET INFORMATION</b>			
<b>12. Amounts concerned</b>	<p>Budget line(s) (article, item): 14.020111 – Eastern Neighbourhood</p> <p>Total estimated cost: EUR 135 000 000</p> <p>Total amount of EU budget contribution EUR 135 000 000 of which EUR 135 000 000 for budget support and EUR 0 for complementary support.</p> <p>The contribution is for an amount of EUR 60 000 000 from the general budget of the European Union for 2021 and for an amount of EUR 75 000 000 from the general budget of the European Union for 2022</p>			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>13. Implementation modalities (type of financing and management mode)</b>	<p>Budget Support</p> <p><b>Direct management</b> through:</p> <p>Budget Support: State and Resilience Building Contract</p>			

## 1.2. Summary of the Action

The Republic of Moldova's<sup>3</sup> continuing energy crisis was further deepened by Russia's invasion of Ukraine on 24 February. By exploiting Moldova's energy dependence, Russia ensured that Moldova would be reminded of its weak position. Moreover, the government's capacity for policy action, which was heavily affected by the energy crisis, has been further reduced by Russia's military aggression against Ukraine. As a result, Moldova is placed now in an even more fragile and vulnerable position.

Moldova is now facing a significant increase of energy prices as a consequence both of its recently amended gas contract with its only gas supplier (Gazprom) and of very tight global energy markets. The increase in gas prices has also a direct repercussion on the electricity prices, given the substantial proportion of Moldova's power coming from gas-fired generation. These prices have already increased considerably. Last winter, Moldova was purchasing its gas at prices up to four times higher than in previous years. This is putting unprecedented pressure on Moldova's public finances as authorities strive to help the most vulnerable citizens cope with the harsh situation.

Moreover, Moldova is both directly and indirectly affected by Russia's invasion of Ukraine. On February 24, the day the invasion began, the Parliament declared a 60-day state of emergency. Nearly 480,000 refugees have entered Moldova since the start of the conflict and around 83,000 still remain on its territory (figures from beginning of May). Most of refugees live in private homes offered by volunteers. Moldova's remarkable efforts of hosting the refugees have also increased gas and electricity demand. Based on government estimates, the management of these flows of refugees requires around 1 million EUR per day. This implies an additional strong budgetary pressure on the country. The massive refugee inflow brought by the Russian invasion of neighbouring Ukraine and persistent high costs of energy come in addition to the COVID-19 pandemic, which has had a significant negative impact on Moldova's economy, causing a drop of 7% in Gross Domestic Product (GDP) in 2020. Moldova remains one of the poorest countries in Europe; in November 2021, the Moldovan National Bureau of Statistics reported that 26.8% of the population live in absolute poverty, an increase of 1.6 percentage points compared to 2019 (25.2%). This highlights the significant impact of COVID-19 on the most vulnerable citizens.

The overall objective of this Action is to assist Moldova to mitigate the socio-economic impact of the rising energy prices, in particular on vulnerable groups, strengthen the Government's overall capacity to deliver tailor-made services to these vulnerable groups and basic services to its population, and support the long-term socio-economic recovery, energy security, and energy transition of Moldova. The Action will contribute to targeted policy measures aimed at reducing the impact of increasing energy costs on citizens and in particularly energy poverty of the most vulnerable and will contribute to growth-enhancing policies.

The Action therefore directly contributes to SDG 1 on ending poverty and SDG 8 on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. The Action will also contribute to SDG 5 on gender equality, since from a gender and human rights perspective, women and men have different energy needs. The Action contributes to the following programming areas: Public sector policy and administrative management, macroeconomic policy, and social protection.

The Action directly contributes to the priorities of the 2021-2027 Multiannual Indicative Programme relating to resilient, sustainable, and integrated economies (Priority #1), environment and climate resilience (Priority #3), and resilient, fair, gender-equal and inclusive societies (Priority #5). The Action further builds on the Economic Recovery Plan for Moldova, the COVID-19 related emergency Macro Financial Assistance (MFA), the budget support already delivered to help mitigate the impact of the COVID-19 pandemic, the already

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<sup>3</sup> Hereinafter 'Moldova'

delivered EUR 60 million budget support to sustain vulnerable customers and the recently adopted proposal for a new MFA operation of up to EUR150 million.

## 2. RATIONALE

### 2.1. Context

The EU, its Member States and the Republic of Moldova signed an Association Agreement, including a Deep and Comprehensive Free Trade Area in 2014 and started to fully apply it after its ratification in 2016.

The Association Agenda covering the period 2021-2027 (under adoption) will guide the joint work on the implementation of the Association Agreement. Together with the five policy objectives of the March 2020 Joint Communication “Eastern Partnership policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all”<sup>4</sup>, it will frame financial assistance under the next Multiannual Financial Framework for the programming period 2021-2027. These priorities<sup>5</sup> are reflected in the Joint Staff Working Document (JSWD) setting out the post-2020 Eastern Partnership agenda<sup>6</sup>, published on 2 July 2021, including its Economic Investment Plan and the five flagship initiatives to support socio-economic recovery and strengthen the country’s resilience.

In June 2021, the European Commission announced an Economic Recovery Plan for Moldova<sup>7</sup>. The Economic Recovery Plan aims to stimulate long-term socio-economic recovery, foster the green and digital transitions and unleash the untapped economic potential of Moldova. It aims to leverage structural reforms, particularly on the rule of law, justice reform and anti-corruption, in order to unlock the sustainable economic recovery of the country.

The global increase in gas prices, which is affecting Moldova more acutely than other countries in the region, will result in a significant strain on the budget, and in turn curtail future economic growth and jeopardize the economic recovery from the COVID-19 pandemic. Before the current gas crisis, the economy was gaining momentum on account of increased political stability, resilient remittances, the positive fiscal impulse (higher public wages, increase in pensions and transfers) and the economic recovery of main trading partners. Despite 13, 9 % GDP growth in 2021, (much of it, however, due to the low base effect), Moldova will face the significant adverse effect of the uncertainty of the geopolitical context combined with the refugee inflow and rising energy prices in 2022. As an example, in April 2021, the electricity tariff for end users increased by more than 40% in Chisinau and further increases are already expected. Although the COVID-19 pandemic seems to have slowed down, the uncertainty surrounding the future evolution of the COVID-19 pandemic remains, particularly given the **low vaccine uptake** (only 25.28% of legally resident population and 40.4 % of the usually resident population were fully vaccinated by April 2022).

Furthermore, Moldova is one of the poorest countries in the region. In 2014, the World Bank estimated that 41% of the population lived below the poverty line of USD 5 a day<sup>8</sup>. The same study estimates that about 18% of household income depends on remittances. The Moldovan National Bureau of Statistics reported in **November 2021 that 26.8% of the population live in absolute poverty**, an increase of 1.6 percentage points compared to 2019 (25.2%). **This highlights the significant impact of COVID-19 on the most vulnerable**

<sup>4</sup> [JOIN\(2020\) 7 final](#).

<sup>5</sup> (1) Resilient, sustainable and integrated economy; (2) Accountable institutions, the rule of law and security; (3) Environmental and climate resilience; (4) Resilient digital transformation; (5) Resilient, fair and inclusive society.

<sup>6</sup> SWD(2021) 186 final

<sup>7</sup> [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_2712](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_2712)

<sup>8</sup> <https://documents1.worldbank.org/curated/en/168451467995808859/pdf/105722-WP-P151472-PUBLIC-Moldova-Poverty-Assessment-2016.pdf>

**citizens.** Moreover, although gas is accessible mostly throughout the country, a sign of the persistent energy poverty is that a sizeable share of the population uses firewood for heating, despite having access to gas<sup>9</sup>. This is in part explained by already higher gas costs in Moldova than in other countries across the Eastern Partnership. A significant proportion of the Moldovan population is therefore **highly vulnerable to the increase in gas and electricity prices.**

The EU Economic and Investment Plan<sup>10</sup> already includes initiatives on energy efficiency for the Republic of Moldova. Flagship #3 aims at improving energy efficiency, for example through district heating of residential buildings in Chisinau and Balti. The overall cost of the investment is estimated at up to EUR 300 million. Thermal insulation will be provided to further improve energy performance. This will boost energy efficiency and reduce CO<sub>2</sub> emissions, create jobs, improve the quality of life, and lower electricity bills for citizens. This flagship initiative will build on existing investment in the energy efficiency of public buildings. Finally, the Economic Recovery Plan in its 3<sup>rd</sup> pillar on investing in infrastructure foresees the promotion of energy efficiency in Moldova through the renovation of local public infrastructures across the regions with additional investments to support the use of renewables.

The Public Finance Management (PFM) reform outlook in Moldova is generally positive. The Ministry of Finance and other key institutions remain committed to the reforms and some notable improvements have already taken place. These include an improved framework for the preparation of the Medium Term Budget Framework (MTBF) and a better structured MTBF document with improved content and an improved structure in the core tables presenting budgetary data of the State Budget Law. This said, the Moldovan government needs to adhere to the budget calendar. Steps need to be taken to consolidate recent gains in the area of medium-term and annual budget planning. The public procurement (PP) system needs further improvement, especially the e-procurement system. The government has already committed in the context of the EU Macro financial assistance condition to develop a new PP Strategy.<sup>11</sup> Further efforts on Public Internal Financial Control (PIFC) improvement are needed. According to Government Decision No. 9 of 20.01.2021, the current PFM Strategy (initially approved through Government Decision No. 573 of 06.08.2013) has been extended till the end of 2022<sup>12</sup>. The Ministry of Finance (MoF) plans to carry out a comprehensive review of the achievements and shortcomings of the Strategy based also on the Public Expenditure and Financial Accountability (PEFA) assessment which will become available in 2022. This will, alongside other independent analysis and assessment, serve as the basis for the development of the renewed/updated Strategy by the end of 2022.

The European Union's partnership with Moldova will remain focused on delivering tangible benefits to Moldovan institutions and citizens. The EU remains committed to working with Moldova to support the reform process that is at the core of the Association Agreement, in particular as regards promoting the rule of law, fighting corruption and vested interests, irrespective of political affiliation, ensuring the independence and accountability of the judiciary, and de-politicising state institutions. EU economic assistance to Moldova will continue based on the principles of strict conditionality and respect for the rule of law and democratic standards. So far, EU assistance and support for democratic reforms have delivered tangible benefits to Moldovan citizens.

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<sup>9</sup> <https://eap-csf.eu/wp-content/uploads/Energy-Poverty-2019-WEB.pdf>

<sup>10</sup> As part of the [Joint Staff Working Document: Recovery, resilience and reform: post 2020 Eastern Partnership priorities, SWD\(2021\) 186 final](#)

<sup>11</sup> The last PFM and transparency report can be found at <https://mf.gov.md/sites/default/files/Raport%20SDMFP%202020.pdf>.

<sup>12</sup> [https://www.legis.md/cautare/getResults?doc\\_id=125548&lang=ro](https://www.legis.md/cautare/getResults?doc_id=125548&lang=ro)

This programme will be implemented in close coordination and synergy with other relevant bilateral and regional assistance for Moldova, including in particular the adopted Macro-Financial Assistance operation for Moldova and crisis mitigation support under NDICI Global Europe Crisis Response Measure.

## **2.2. Problem Analysis**

Moldova has been suffering an energy crisis since October 2021 when the main gas supplier to the country, Gazprom, threatened to renew the gas contract only at exorbitant prices. Indeed on October 22<sup>nd</sup>, gas pressure levels in the Moldovan pipelines reached critical levels. By November 1<sup>st</sup>, Moldova had been able to secure an amended contract with Gazprom at higher prices and with significant concessions on a whole range of issues. However, far from closing the crisis, the agreement only opened a new chapter as Moldova now struggles every month to pay in advance for Russian gas deliveries. In case the payment is not made on a timely manner Gazprom would cut gas deliveries, something they remind Moldova monthly.

Russia's war of aggression in Ukraine has only deepened further the effects of the energy crisis in Moldova. The energy crisis has severely impacted the capacity for policy action of the Moldovan authorities, which have been further limited by the pressure on energy supply and prices induced by the war. These effects which exploit Moldova's energy dependence, place the country in an increasingly vulnerable position.

Moldova is both directly and indirectly affected by Russia's invasion of Ukraine. On February 24, the Parliament declared a 60-day state of emergency. Nearly 480,000 refugees have entered Moldova since the start of the conflict and around 83,000 have remained (as of end-May). The management of these flows requires around 1 million EUR per day. The refugee population remaining in Moldova represents vulnerable groups - around 46,000 of the refugees are children, and the majority of adults are women and elderly. Most of refugees live in private homes offered by volunteers. This implies an additional strong budgetary pressure on the country, which has already been grappling for the last two years with the consequences of the COVID-19 pandemic. Furthermore, the refugee population has resulted in an increased gas demand which brings added pressure to the already saturated gas markets, increasing the price.

On 25 March 2022, United Nations in partnership with the Government of Moldova, announced about the implementation of a financial support program for Ukrainian refugees in the Republic of Moldova and for Moldovan citizens hosting refugees. The UN Refugee Agency (UNHCR) provide 2,200 MDL (EUR 110) per month to refugees, and the World Food Program (WFP) provide single payments of 3,500 MDL (EUR 175) to Moldovan families who have hosted refugees. According to the data provided by the National Employment Agency, until 4 April 2022, 198 refugees, 147 women and 51 men, had notified their intention to seek employment in the Republic of Moldova. Following the Russian invasion in Ukraine, the Moldovan economy is set for a steep contraction this year. Tentative estimates indicate growth at 0.3% GDP for 2022 as whole, accounting for growing budget pressure, high inflation, as well as possible disruptions to trade activity and further volatility in the energy markets. The current geopolitical context and high refugee inflow will dampen Moldova's post-pandemic recovery and further international assistance will remain key to respond to the continuing challenges.

In 2021 inflation reached record-high levels in Moldova and it continues to grow rapidly. Measured by the consumer price index, it reached 13.9% by end-2021, and further accelerated to 27% in April 2022 (significantly exceeding the upper target limit set by the National Bank of Moldova at 6.5%). In response to the strong inflationary pressure, caused by growing food and energy prices, the central bank raised its key policy rate several times since mid-last year, to 15.5% in May 2022. Given the Russian invasion of Ukraine, inflation is projected to grow, exceeding 30% by mid-this year; therefore further monetary tightening is expected. In the current context, and with the military aggression affecting imports from Russia and the region, Moldova may be particularly affected by the shortage of agricultural fertilizers (a key import product from

Russia and Belarus), with possible effect on the harvest this summer and further increasing food prices, additionally weakening economic growth.

Moldova's fiscal position is projected to considerably deteriorate. The inflow of refugees exerts increased pressure on Moldova's budget. Tentative estimates indicate that fiscal deficit will grow from 6% of GDP, agreed under the Budget Law 2022, to 8% of GDP. In addition, Moldova has limited capacity to cover the growing fiscal gap from domestic sources, as it continues to face liquidity pressure in the financing market. This is a result of the confidence blow associated with Russia's actions in Ukraine and possible spill-over impact in Moldova. Therefore, these geopolitical risks make creditors unwilling to lend to Moldova. As such, the authorities resorted to international partners for increased support, including the EU and the IMF.

With regards to the energy sector, the Republic of Moldova remains a net gas importer, which has to import almost 100% of its gas consumption, and has no storage capacity on its territory.

Moldova is facing a significant increase of gas prices as a consequence both of very tight global energy markets and of a recently-amended contract with its gas supplier, Gazprom. Since 2021 Moldova is purchasing its gas at prices about three or four times higher than in previous years. As a result, **energy poverty has increased sharply, and the number of vulnerable customers multiplied**. In order to mitigate the cost of this increase throughout the population, the government introduced and successfully implemented a support scheme to help vulnerable customers (cf. below).

In response to the abovementioned situation, a state of emergency was declared in October 2021 for a duration of 30 days. The state of emergency allowed derogation from certain laws and procedures, including quick allocation of funds from the budget to the State Own Enterprise Energocon to buy gas from alternative suppliers.

The Moldovan government put in place a National Energy Crisis Action Plan (NECAP) last year to help the country survive the winter, and in particular to support the most vulnerable customers who were at severe risk of energy poverty. Unfortunately, the context on the energy markets continues to be challenging and unusual high prices are registered on global gas and electricity markets, despite the end of the winter season. These price increases were evident mostly on the short term (spot) markets, characterized by high volatility of prices, but end-user prices in some countries were partly shielded from the increase due to longer term contracts concluded in advance. For 2022, the markets behaviour is even more atypical with summer prices projected higher than past winter prices. This is the reverse of traditional price movements which in the summer decrease due to lower demand as consumers use less gas for heating.

From April 2022, a sharp increase in the gas price took place after a change in the way gas prices were formulated. Due to the change in Gazprom gas price formula, in Q2 and Q3 the quota of the spot price has increased to 70% (it was 30% in Q1 and Q4). The current formula is linked to both the gas spot market price/TTF and oil price variation. The gas price for Moldovagaz was at 1190 USD/1000 m<sup>3</sup> for April, 920 USD/1000 m<sup>3</sup> in May and 880USD/1000 m<sup>3</sup> in June. As term of comparison, gas prices in Moldova were 669 USD/1000 m<sup>3</sup> in January 2022, 562 USD/1000 m<sup>3</sup> on February and 547 USD/1000 m<sup>3</sup> in March. An initial increase of electricity tariffs was already passed on to consumers, further price hikes towards consumers are expected.

Additional pressure is expected to come from the electricity prices. The electricity tariffs for residential users have been already increased by 40% due to the important financial deviation accumulated as a consequence of the gas price and despite the fact that during winter about 25 % of electricity was produced by gas fired cogeneration power plants in Chisinau and Balti. Even in the case of electricity imported from Ukraine or Romania, the price is expected to be very high, which means more than doubling the end-user electricity

tariffs. This additional increase in the energy costs will dramatically affect consumers and the most vulnerable in particular. For example, a provisional estimation for Q2 shows a gap of about 153 million USD not subsidised in current tariff for gas should be transferred to consumers and about 21.5 million USD for electricity will be charged to households. This general price increase has contributed to a worsening of the structural weaknesses of country. The Government has estimated that more than a quarter of Moldovan citizens already spend almost 25% of their income on energy without considering the recent price increases from April when electricity prices increased about 40% and wholesale gas prices more than doubled. During 2021, the price of natural gas increased by 360%. Without effective mitigation measures, high energy prices in Moldova may have huge social impacts.

The above mentioned Ukrainian refugees crisis and the energy crisis followed the acute COVID-19 induced crisis. In order to help support the post COVID-19 socio-economic recovery, the EU delivered EUR 100 million of emergency Macro Financial Assistance, of which the last tranche was disbursed in October 2021. An additional EUR 21.4 million in budget support assistance to support reforms and the fight against COVID-19 in the police sector and EUR 15 million to mitigate the socio-economic impact of the COVID-19 pandemic were also disbursed by the European Commission in September 2021. Moreover to face the energy crisis the EU has already delivered a budget support programme of EUR 60 million to support vulnerable Moldovan customers. The EU has also approved a MFA of EUR 150 million and is delivering EUR15 million from the Foreign Policy Instruments rapid response mechanism of NDICI. In order to support Moldova host Ukrainian refugees the EU has delivered EUR13 million in humanitarian assistance.

The EU already provides assistance in order to improve the long-term energy security and efficiency of Moldova. This includes, for example, the ‘Moldova Energy Efficiency’ programme, the first nation-wide energy efficiency undertaking in Moldova. The project will mainly target public buildings (schools, kindergartens, hospitals, municipal/governmental buildings frequently used by citizens) and modernise them in order to improve their energy efficiency. The total investment is estimated at around EUR 78 million and includes an EU grant of EUR 15 million, co-financing loans from the European Investment Bank and the European Bank of Reconstruction and Development, as well as a contribution from the Government of Moldova. Additional support for energy efficiency is foreseen under the forthcoming Second Individual Measure for Moldova 2021 (Annual Action Programme for 2021).

However, taking into consideration the **significant increase in gas prices** and the **consequent increase in electricity prices beyond the winter season**, the **vulnerability of domestic consumers** (especially socially vulnerable families) and the fragility of the domestic economy now also impacted by the war at its borders and the **economic strain from housing such a large number of refugees**, additional support is needed to ensure sustainable public finances and to prevent a possible emergency arising from a widespread lack of access to affordable heating while keeping the reform and growth momentum. In line with the future 2021-2027 Multiannual Indicative Programme (MIP) for EU support to the Republic of Moldova, the situation calls for a new budget support programme targeting the immediate financial needs of Moldova and supporting the country’s plan to support vulnerable households in the short and mid-term as well as to provide assistance to sustain socio-economic growth and decent living conditions both for women and men.

## 2.3. Additional Areas of Assessment

### 2.3.1. Public Policy

#### Long-term development and economic policy

The country’s main strategic planning document, which serves as a basis for current programming, is the National Development Strategy “Moldova 2030”, approved in its first version by the Government in the

beginning of November 2018. The main objectives are embedded in four basic pillars and cover ten national-level sustainable development objectives.<sup>13</sup>

In addition to the National Development Strategy (NDS) “Moldova 2030”, the Economic Council under the auspices of the Prime Minister developed an “Indicative Economic Recovery Plan in the context of COVID-19”<sup>14</sup>. The Plan is subject to regular revision and updates. It also includes a policy matrix with measures in four main areas of intervention, the third area notably being to “provide state aid for the development of private sector affected by the pandemic”. Furthermore, the former Ministry of Economy and Infrastructure (MEI) developed the “Action Plan for the implementation of the 2020-2021 Economic Measures Programme in the context of COVID-19”<sup>15</sup>. The Action Plan envisages a series of concrete measures under three objectives: 1) mitigation of the socio-economic impact of the COVID-19 pandemic; 2) economic recovery of Moldovan companies and 3) transition to a more resilient economy and economic adaptation. The expired 2013-2020 SME support strategy will be replaced by a new SME support programme by the end of 2022. Apart from the ongoing sectoral SME support programmes, it is envisaged to adopt and launch already in 2022 several new programmes. It is important that such SME support programmes have a specific focus on women, as women are underrepresented among entrepreneurs in Moldova (33.9%). In this, the government can capitalise on its previous Programme “Women in Business” (Government Decision #no.1064, from 16.09.2016)<sup>[1]</sup>.

In addition, the activities taken by the Government address the disproportionate effect of COVID-19 on women in terms of loss of access to income and intensified economic insecurity, increased burden of domestic and care work, and higher incidence of domestic violence because of strict confinement measures.

#### Energy policy and provisions for vulnerable citizens

The social assistance system in Moldova includes social payments and social services. Social services are delivered by local social assistants and are funded from local budgets. One of the key social assistance benefits is material aid (AS-Ajutorul Social). The key purpose of the material aid programme is to ensure a guaranteed minimum monthly income (GMMI) to disadvantaged families. Related to the energy expenses, and according to the Law on Social Assistance (No. 133 of 13.06.2008), while the AS is applied continuously and is meant to provide additional resources to the low income of the family, disadvantaged families are entitled to additional state assistance during the five cold months from November to March. The amount of the social payment is calculated by comparing the overall income of the family and the monthly guaranteed income per member of the family and is approved in accordance with Regulation on Modality of Establishing and Paying Social Assistance (Government Decision No. 1167 of 16.10.2008). Currently the monthly guaranteed income per member of the family is MDL 1 363 (about EUR 67). The amount of the social payment is adjusted periodically, the most recent adjustment being in 2019, and the approved monthly financial support for disadvantaged families during the cold period (currently still in force) is MDL 500 /month (EUR 25). In addition to the national scheme there are also local measures available to provide subsidies for heating costs in Chisinau and Balti.

Material aid (coupled with the aid provided during the heating season) thus represents a means-targeted social benefit. According to the World Bank (2019), targeted social assistance to poor families is the most efficient

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<sup>13</sup> <https://moldova.un.org/en/15729-national-development-strategy-moldova-2030-approved-government>

<sup>14</sup> <https://consecon.gov.md/wp-content/uploads/2020/10/Studiul-de-impact-al-pandemiei-COVID-19-asupra-sectoarelor-economice-%C8%99i-Matricea-de-politici-1.pdf>

<sup>15</sup> [https://mei.gov.md/sites/default/files/propuneri\\_de\\_masuri\\_economice\\_in\\_contextul\\_covid-19.pdf](https://mei.gov.md/sites/default/files/propuneri_de_masuri_economice_in_contextul_covid-19.pdf)

type of social assistance in Moldova for fighting poverty and inequality. This type of intervention has also the best targeting results – up to 40% of the programme budget goes to the bottom decile and almost 80 percent goes to the bottom 40% of the distribution, while only 1% goes to the top quintile.

Moldova recorded some progress in reducing the extreme poverty rate, but the rural population is at a much higher risk of poverty than the urban population. However, the COVID-19 pandemic resulted in an increase in the poverty rate, in 2020 it was 26.8% compared to 25.2% in 2019, with 3 times higher chance of living in poverty for those living in rural areas. The country remains considerably reliant on remittances which help reduce the poverty level in Moldova. However, with the global food crisis and the general increase in foodstuffs due to Russia's war of aggression, a worsening of the poverty rate remains a real possibility.

Women, the elderly, adolescents, youth, children and persons with mental and physical disabilities experience the highest degree of social marginalisation. Marginalised people become even more vulnerable in emergencies, such as pandemics or energy crises. Children in Moldova are still disproportionately poor, and rural-urban inequalities are pronounced. The poverty rate for households with three or more children was 23 percent, the national average was 10% and for families with one child the poverty rate was just 8% (Ministry of Economy and Infrastructure, 2017). Poverty is more pronounced in rural, than in urban areas. In 2019, the level of poverty among women was 25.6%, and among men 24.8%<sup>16</sup>.

Based on the Natural Gas Law 108/2016, gas suppliers are responsible for several public services, notably (1) an obligation to supply natural gas to final consumers at established quality parameters, at regulated prices, transparent, non-discriminatory and easy to compare and (2) an obligation of the supplier of last resort.

Other public service obligations could be imposed on gas companies by the Government or by the regulator (ANRE) in order to address issues relating to security of natural gas supply, the parameters and indicators of quality, environmental protection and increasing energy efficiency, protection of health, life and property, and measures for the protection of final consumers.

### State of Emergency Declaration and the National Energy Crisis Action Plan

Following the developments in the local gas market, on 22 October 2021 the Parliament adopted the decision to introduce a state of emergency in the Republic of Moldova for a duration of 30 days, from 22 October until 20 November 2021. The state of emergency made it possible for the Government (also via the Commission on Emergency Situations) to make quick decisions on financial allocation and purchase of gas as well as to have greater control over the distribution of gas.

To support its citizens and in particular the most vulnerable part of the population the Government of Moldova is currently in the process of implementing a National Energy Crisis Action Plan (NECAP). The overall objective of the plan is to mitigate the impact of high energy prices on the population, to protect especially the most vulnerable groups and to enhance energy security and efficiency in order to structurally prevent similar situations in the future. More specifically, the plan will target the following objectives:

1. Maintain the framework to reduce the impact of rising energy prices on household consumers;
2. Support the population and in particular vulnerable groups to cope with the harsh socio-economic situation;
3. Ensure Moldova's long-term energy security and prevent other energy crises.

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<sup>16</sup> <https://statistica.gov.md/newsview.php?l=ro&id=6934&idc=168>

According to the government's calculations, the total cost of the National Energy Crisis Action Plan was estimated at EUR 252 million, which will represent around 2% of Moldova's GDP in 2022.

In order to partially offset the increase of gas prices for the most vulnerable households and to ensure continuous support to the population and in particular the most vulnerable groups to cope with the harsh socio-economic situation, the Moldovan authorities envisaged and have been implementing the following measures (estimated cost EUR 92 million):

- Support for household bills for gas and heating in winter;
- Extend financial support for the most vulnerable and socially disadvantaged households. The Moldovan authorities intend to both increase the number of vulnerable households covered and to increase the level of payments. This income-targeted assistance programme will not only help vulnerable households partially offset the rising energy prices, but will also alleviate the effects of higher costs for other basic necessities.

Further measures envisaged by the Government of Moldova include a set of measures to support workers including through short-time work schemes and subsidies for technical unemployment, supporting parents with children in on-line education, increasing the minimum package of social services and a minimum pension increase.

As vulnerable groups are hit exponentially harder by the crises, further costs will be incurred to provide broader support for the vulnerable groups and marginalised population to cope with the combined negative effects of energy price rise and the COVID-19 crisis. To that end, the changes in legislation such as the legislation on gas and electricity defining vulnerable consumers have started. While the situation is evolving rapidly, it remains clear that the impact of the Russian military aggression against Ukraine, combined with the rise in energy prices will have a significant budgetary, macro-fiscal and socio-economic impact in an already difficult economic context. Addressing these challenges will require longer-term steps to support vulnerable citizens and energy transition through in particular increasing energy efficiency.

The National Energy Crisis Action Plan has already served to mitigate the consequence of the increase in energy prices over the 2021-2022 winter to the most vulnerable citizens. It therefore continues to constitute a relevant and credible basis for budget support contract objectives to be achieved.

#### State of Emergency Declaration related to Russian Invasion of Ukraine

Following a request from the government, on 24 February 2022, the Parliament of the Republic of Moldova approved unanimously, a 60-day state of emergency for the entire country in response to the crisis in Ukraine. The special measure was taken in order to manage migration flows and protection of refugees from Ukraine as well as to address the systemic weaknesses and humanitarian challenges. Concerns are increasing about the security, economic and political implications of Russia's war of aggression against Ukraine for the Republic of Moldova. On 28 February, the Republic of Moldova announced it would not align to EU sanctions against Russia due to the country's economic and energy vulnerability. The Republic of Moldova's Security and Information Service raised the terrorism alert level to yellow code (moderate) and blocked online news sites promoting Russian propaganda narratives. Concerns exist that the country is highly vulnerable to increasingly likely cyber-attack against key critical infrastructure. Most recently (25-26 April), several provocative incidents were reported in the Transnistrian region.

### 2.3.2 Macroeconomic Policy

The macroeconomic situation in 2021 remain broadly stable with GDP growth at 13.9% (much of it, however, due to the low base effect). However, following the Russian invasion of Ukraine, the Moldovan economy is set for a steep contraction this year. Tentative estimates indicate growth at 0.3% GDP for 2022 as whole, accounting for growing budget pressure, high inflation, as well as possible disruptions to trade activity and further volatility in the energy markets. The current geopolitical context and high refugee inflow, will dampen Moldova's post-pandemic recovery and further international assistance will remain key to respond to the continuing challenges.

In 2021 inflation has reached record-high levels in Moldova and it continues to grow. Measured by the consumer price index, it reached 13.9% by end-2021, and further accelerated to 27% in April 2022 (significantly exceeding the upper target limit set by the National Bank of Moldova at 6.5%). In response to the strong inflationary pressure, caused by growing food and energy prices, the central bank raised its key policy rate several times since mid-last year, to 15% in May 2022. Given the Russian invasion of Ukraine, inflation is projected to grow, exceeding 30% by mid-this year; therefore further monetary tightening is expected. In the current context, and with the military aggression affecting imports from Russia and the region, Moldova may be particularly affected by the shortage of agricultural fertilizers (a key import product from Russia and Belarus), with possible effect on the harvest this summer and further increasing food prices, additionally weakening growth.

In 2021, Moldovan banks presented sufficient liquidity and the loan portfolio continued to grow, with an accelerated growth rate of corporate loans. The share of non-performing loans further decreased compared to 2020, from 7.4% down to 6.1% as of end-2021. Despite some volatility in the deposit market at the start of the Russian invasion, with more Moldovans drawing on the foreign currency deposits, following the central bank's intervention, the exchange rate remains broadly stable.

On the fiscal side, Moldova fared better than originally projected at 1.9% of GDP in 2021. Much of this can be accounted for underspending and some optimisation measures, as well as accelerated revenue growth compared to expenditures, up by 23.5% year-on-year. Their key sources of revenue included higher tax proceeds, including higher VAT collection, as well as customs duties, driven by the revival of imports and some simplified customs procedures. Expenditures were driven primarily by payments made as part of the compensation scheme to the most vulnerable households for the cost of energy price increases, the increase of minimum pension, as well as some public administration salary increases and to a lesser extent, continued support to the COVID-19 measures.

However, following the Russian invasion of Ukraine, Moldova's fiscal position is projected to considerably deteriorate. The inflow of refugees exerts increased pressure on Moldova's budget. Tentative estimates indicate that fiscal deficit will in 2022 grow from 6% of GDP, agreed under the Budget Law 2022, to 8% of GDP. In addition, Moldova has limited capacity to cover the growing fiscal gap from domestic sources, as it continues to face liquidity pressure in the domestic financing market. This is a result of the confidence blow associated with Russia's military aggression against Ukraine and the spill-over impact in Moldova. As such, the authorities resorted to international partners for increased support. On 5 April 2022 an international conference was organised in Berlin to restore confidence and provide additional boost to Moldova's vulnerable economic position this year and in the medium-term, as the Russian aggression continues.

In 2021, Moldova's government debt rose to 37% of GDP, compared to 35% of GDP in 2020. However, on the back of increased borrowing from international partners the debt level is projected to hover above 40% of GDP in the medium-term (2022-2024). Due to increased international support in the face of the effects of the Russian invasion, some estimates (IMF) also project that the government debt may exceed 45% of GDP

already this year. Although Moldova's debt continues to be relatively low by international standards, growing debt distress may be of concern going forward especially due to worsening financing conditions.

On the back of strong aggregate demand, the current account deficit widened significantly in 2021, exerting renewed pressure on the balance of payments. The deficit doubled last year at 11.3% of GDP, compared to 6.6% of GDP in 2020. Much of this can be accounted for the mounting trade deficit, with the growth of imports (up to 32.5%) well outpacing the rise of exports (27.5%). Given the rise in energy prices, as well as possible disruptions to regional trade, this deterioration is set to intensify if the military aggression persists. In addition to this, higher reinvested earnings resulted in a narrowing of the surplus of the primary account. However, the surplus of the secondary account rose due to increased transfer of remittances and of international partners. Remittances, which remained broadly stable at 15% of GDP in 2021, may also be impacted by the ongoing invasion; transfers from Russia and the CIS region are projected to drop by USD 129 million, or 1% of GDP.

Foreign direct investment (FDI) doubled in 2021, reflecting improving confidence and higher profitability after the pandemic. However, net FDI remains at low levels, at only 2.5% of GDP in the first nine months of the year, indicating on on-going strong reliance on debt financing to support domestic consumption.

Moldova's foreign exchange reserves remain overall stable and relatively high, at 3.9 billion as of end-2021, translating into the coverage of 8 months of imports. However, following the central bank's intervention, amid war-related initial volatility in the foreign exchange market, international reserves declined noticeably, to USD 3.3 billion (covering about 7 months of imports) by May 2022, further limiting Moldova's buffers to respond to the crisis. Total external debt, including public and privately emitted debt, remains at broadly the same level compared to 2020, at 64% of GDP.

Significant reliance on external assistance in form of concessional donor funding and commercial borrowing continues. In September 2021, following the global allocation of Special Drawing Rights (SDRs) by the IMF Moldova received SDR 165.3 million, the equivalent of about USD 236 million. The EU COVID-19 Macro-Financial Assistance (MFA) operation final disbursement was in October 2021 with the payment of the last tranche of EUR 50 million. An additional sum of EUR 21.4 million in budget support assistance to support reforms and the fight against COVID-19 in the police sector and EUR 15 million to mitigate the socio-economic impact of COVID-19 pandemic were also disbursed by the European Commission in October 2021. The EU disbursed a budget support of EUR 60 million in December 2021 to help fight the impact of the acute energy crisis on vulnerable customers. Capacity to mitigate the impact of the recent energy crisis and support economic recovery will critically depend on external financing, particularly a successful implementation of the new IMF programme and the World Bank and the EU concessional loans and grants.

On 20 December 2021, the IMF adopted a new three-year reform programme for Moldova of Extended Credit Facility/Extended Fund Facility (ECF/EFF) USD 558.3 million, of which USD 79 million were disbursed upon the programme's approval. However, following the Russian invasion of Ukraine, Moldova requested an augmentation of the standing arrangement. After a review mission organised in March 2022, the IMF assessed that the financing needs grew considerably, exceeding USD 1 billion in 2022-2023. Following the successful conclusion of the review, on 12 April, the IMF announced that a staff-level agreement was reached with Moldova on the augmentation of the country's ECF/EFF programme. On 11 May, the Executive Board approved the augmentation of the programme by USD 267 million, of which USD 144 million were disbursed immediately. Structural reforms attached to the programme will also aim at addressing the key underlying vulnerabilities, notably, including the rule of law, justice reform and further fight against corruption.

Bilateral support to Moldova is also forthcoming. In February, Moldova signed an agreement with Romania on EUR 100 million assistance. In March, France announced plans to provide two bilateral loans for a total of

EUR 65 million. Poland pledged an interest-free loan of EUR 20 million. Germany announced in early April plans to extend a EUR 50 million loan. In addition, the World Bank is preparing the Development Policy Operation of EUR 150 million. Following a request by the Republic of Moldova, the European Parliament and Council approved in April 2022 a proposal for a new Macro-Financial Assistance (MFA) operation of up to EUR 150 million, out of which up to EUR 30 million would be provided in grants and up to EUR 120 million in medium-term loans at favourable financing conditions.

### **2.3.3 Public Financial Management**

The Government's Public Financial Management (PFM) reform agenda is set out in the 2013-2020 Strategy for PFM Reform Development<sup>17</sup>. The strategy was developed following the 2011 Public Expenditure and Financial Accountability (PEFA) assessment to address the identified weaknesses and was updated in 2017 taking into consideration the 2015 PEFA assessment. A mid-term review was carried out after four years of implementation. In 2021, the deadline for the implementation of the strategy was extended by two years following delays due to the COVID-19 pandemic that also delayed the PEFA assessment. The new PEFA assessment is expected to be finalised in 2022 and together with the already available Public Investment Management Assessment (PIMA) and independent evaluations in Debt Management, Taxation, Procurement and Public Investment Management will serve for the development of the subsequent PFM strategy. The government has committed to develop a new multiannual PFM strategy by end of 2022 as one of the conditions for the disbursement of the EU's macro-financial assistance. The findings and recommendations of the IMF 2019 PIMA report related to public procurement must be reflected in the new Programme on Public procurement to be adopted by end 2022, in replacement of the expired 2012-2020 Public procurement Strategy. The Public Financial Management Transparency Assessment (PFMTA) report covering the period June 2020-May 2021 concluded that the 2013-2020 strategy has been implemented with consistency and many of the core issues have been or are being addressed. In conclusion the extension of the strategy till 2022 is sufficiently relevant and credible.

Overall, the PFM reform outlook in Moldova remains positive. The MoF, its constituent departments and other key institutions remain committed to reform. The country has demonstrated progress in PFM and Domestic Revenue Mobilisation (DRM) through the following key reforms:

1. Expansion and strengthening of fiscal discipline demonstrated by upward revision of revenue to reflect better than expected performance in tax and customs collection and downward revision of the fiscal deficit in 2021 in all 3 amendments to the State budget law (March, September, November).
2. Steps taken to enable future reforms in Public Investment Management through the development and establishment of a national procedure for the appraisal of public investment projects. Once put in force through a government decree, the procedure will be automated through a web-based application increasing efficiency and transparency in allocating government resources to public investment
3. Enhancement of debt management and development of domestic securities market, in particular with the issuance of the first ever 7-year bond in the domestic market;
4. Improvements in public financial control and audit including enhancement of technical capacity in the Central Harmonisation Unit (CHU) and selected line ministries;
5. Revision of the legal and strategic framework for the Supreme Audit Institution and enhancement of capacities in financial and compliance audits;

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<sup>17</sup> [https://www.legis.md/cautare/getResults?doc\\_id=9438&lang=ro](https://www.legis.md/cautare/getResults?doc_id=9438&lang=ro)

6. Enhancement of the parliamentary oversight of the budget through the establishment of a standing Public Accounts Committee (Committee for control of public finances) and public hearings of the reports of the Court of Accounts;
7. Continuous transparency of budgetary process through citizen's budget and enrolment in Open Budget Index.
8. Adoption of the new Customs Code;
9. Preparation of the introduction of a single window and New Computerized Transit System (NCTS).
10. Steps taken to enable future reforms in Public Investment Management through the development and establishment of a national procedure for the appraisal of public investment projects. Once put in force through a government decree, the procedure will be automated through a web-based application increasing efficiency and transparency in allocating government resources to public investment

While notable reforms have taken place, stronger adherence to the budget calendar is needed. Steps need to be taken to consolidate recent gains in the area of medium-term and annual budget planning. The PP system needs further improvement, especially the e-procurement system. A new PP Strategy will be developed and implemented. Further efforts on PIFC improvement are needed. Reforms are needed in the area of public investment planning in particular related to revising the methodology for appraisal and selection of capital investment projects. With this regard the government has committed to develop a new procurement strategy, as well as to revise the procedure of public investment appraisal as the conditions for disbursement of the macro-financial assistance.

There is continuous commitment of the authorities to the increase in domestic revenue mobilisation. The general budget revenue of Moldova as percentage of GDP (30%) remains lower than in its peers, indicating further revenue mobilisation potential. The IMF therefore expects the tax revenue to more than double in nominal terms between 2016 and 2025. The share of indirect taxes in total tax revenue is however expected to remain very high at 66-69%.

Reforms to the tax administration are ongoing. International practices are in place in some areas (for example in taxpayers assistance, electronic services, etc.), while progressing in other areas such as the risk-based compliance management. Identified weaknesses include unreliable tax payers register, limited risk based-focus for the audit, value-added tax (VAT) refund programs, outdated IT systems etc. Frequent changes in tax policy and tax rates are still common. The VAT approximation road map and related recommendations providing for gradual alignment of the VAT regulation with the EU VAT Directive is pending follow up by the Ministry of Finance. While smuggling or non-declaration of goods and undervaluation schemes still exist and affect state revenue as well as competition and fair trade the authorities are taking steps to curb these activities. From May 2021 the consumption stamps for alcoholic and tobacco products imported and intended for consumption in the territory not controlled by the constitutional bodies were applied. In the customs sector important steps were taken with the adoption of the new Customs Code, preparation of the introduction of a single window and New Computerised Transit System (NCTS). In addition, as part of the implementation of the National Action Plan for Trade Facilitation (Article 193 of the Association Agreement) steps have been taken towards the implementation of the Customs Service of the Authorised Economic Operator (AEO) programme.

On 22 November 2021, in its first reading, the Parliament adopted the Customs and Tax Policy for 2022. In comparison with the previous year, the policy appears to be more cautious and neutral. Tax burden was raised for gambling (income tax rate from 12 to 18%) and excise duty rates on tobacco and non-tobacco products

were increased. In particular, excise duty rates will be introduced on e-cigarettes (vape, etc) – MDL 1957 / litre, and raised on cigars and cigarillos (minimum MDL 959/1000 pcs) aligning them with those on cigarettes. This will eliminate opportunities for misclassification between these tobacco products, which were provided by the previous Customs / Tax policy for 2021 (cigars/cigarillos currently enjoy lower excise duty rates). The proposed measures also introduce allocation of 100% of road tax to local budgets, increase in tax exemption regarding natural persons' and employees' income, and the cancellation of "luxury tax" for mobile telephony services (2.5%), among others.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

### **2.3.4 Transparency and Oversight of the Budget**

Moldova has sustained a solid level of transparency reflected by the systematic publication of draft and enacted budgets. The budget documentation is published and budgetary information is generally accessible, timely, comprehensive and sound. The only document that is not produced is the Mid-Year Review. External audit and control are also performed and are consistently improved. Moldova ranks relatively high in the last available 2019 Open Budget Survey (OBS) by the International Budget Partnerships, despite a slight deterioration from a score of 58 to 57 in the Open Budget Index between 2017 and 2019 surveys (the score for public participation in budgetary process was lowered to 4 from 7 out of 100)<sup>18</sup>. Moldova is currently ranked 39<sup>th</sup> among 117 surveyed countries and is placed within the range *Limited Information Available* (scores 41-60)<sup>19</sup>. The content of some documents published by the Government of Moldova scored highly in terms of transparency, including the pre-budget statement (83), enacted budget (84), in-year reports (78) and year-end reports (67)<sup>20</sup>. It is noted that the 2019 OBS methodological framework had been revised and partly explains the one point deterioration compared to the 2017 survey.

Positive developments took place in what it refers to the budget oversight. The Moldovan Supreme Audit Institution - the Court of Accounts (CoA), developed and started the implementation of its new Development Strategy for 2021-2025. Additionally, a new Audit Strategy has been prepared and the first ever communication strategy for the institution is being developed. In addition to the annual audits of the State budget and the State Social and Compulsory Health Insurance Funds, and all the consolidated accounts of the Ministries the Court of Accounts publishes audit reports, some 75 in last audit season, mostly covering compliance issues. The first international Peer Review was successfully organised. The dedicated Public Financial Control Committee in the parliament is functioning however could benefit from further support and empowerment.

The Supreme audit institution presented to the Public Finances Control Committee in the parliament the reports on the compliance audit of the management and use of resources in the field of health to prevent and combat the spread of COVID-19 infections. The findings of the audit stated the need to intensify internal control processes, especially for public procurement, at all stages and for all public entities involved in the process, with the development of a systemic action plan, which would reduce possible risks and non-compliances. The financial audit of the Supplementary Grant to the Project "Emergency Response to COVID-19 in the Republic of Moldova" did not identify significant deviations from the established requirements.

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<sup>18</sup> <https://survey.internationalbudget.org/#profile/MD>

<sup>19</sup> <https://www.internationalbudget.org/open-budget-survey/rankings>

<sup>20</sup> <https://www.internationalbudget.org/sites/default/files/country-surveys-pdfs/2019/open-budget-survey-moldova-2019-en.pdf>

The entry point is considered to be met as The Law on the 2021 State Budget was approved on 16 December 2020 (Law N 258)<sup>21</sup>. The last amendment to the 2021 State Budget Law was put forward by the Government (Decree N 334) to the Parliament on 10 November 2021<sup>22</sup>. It was enacted by the Parliament on 25 November 2021 (Law N 188)<sup>23</sup>. The draft law on the state budget for 2022 was approved on 25 November 2021 (Law N 205)<sup>24</sup>.

### 3. DESCRIPTION OF THE ACTION

#### 3.1. Objectives and Expected Outputs

The Action consists of a State and Resilience Building Contract to support societal and state resilience in the Republic of Moldova<sup>25</sup>. The budget support contract contributes to the government's policy to reduce the combined negative impact of the Russian aggression in Ukraine and persistent energy crisis on Moldovan citizens, to ensure the delivery of essential services, particularly to the most vulnerable segments of the population and to support the long-term socio-economic recovery, energy security and energy transition of Moldova. The EU's approach will be accompanied by a robust policy dialogue. An EU-Moldova High Level Dialogue on Energy (co-chaired by Commissioner Simson and Prime Minister Gavrilița) was launched on 28 October 2021 to discuss long-term issues, such as increasing Moldova's energy security and efficiency.

In line with the aforementioned National Energy Crisis Action Plan, and the overall measures taken by the government to support the socially vulnerable groups and in particular refugees, the **overall objective** (Impact) of this Action is to mitigate the socio-economic impact of the rising gas prices in particular on the vulnerable groups, strengthen the Government's overall capacity to deliver tailor made services to these vulnerable groups and basic services to its population, and support the long-term socio-economic recovery, energy security, and energy transition of Moldova.

The **specific objectives** (Outcomes) of this Action are to:

1. Counteract socio-economic hardship, with a special focus on vulnerable groups in the context of the energy crisis;
2. Sustain post-COVID-19 socio-economic recovery and economic growth by providing support to vulnerable groups to cope with the combined negative effects of the military aggression in Ukraine, rise in energy prices and the COVID-19 crisis;
3. Support Moldova's long-term objective of energy transformation with steps towards increasing energy security and energy efficiency.

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<sup>21</sup> [https://www.legis.md/cautare/getResults?doc\\_id=124567&lang=ro](https://www.legis.md/cautare/getResults?doc_id=124567&lang=ro)

<sup>22</sup> [https://www.legis.md/cautare/getResults?doc\\_id=128559&lang=ro](https://www.legis.md/cautare/getResults?doc_id=128559&lang=ro)

<sup>23</sup> [https://www.legis.md/cautare/getResults?doc\\_id=128709&lang=ro](https://www.legis.md/cautare/getResults?doc_id=128709&lang=ro)

<sup>24</sup> [https://www.legis.md/cautare/getResults?doc\\_id=129175&lang=ro](https://www.legis.md/cautare/getResults?doc_id=129175&lang=ro)

<sup>25</sup> In line with the Joint Communication on A Strategic Approach to Resilience in the EU's External Action (JOIN(2017) 21 final

The **outputs** to be delivered by this Action contributing to the corresponding specific objectives (Outcomes) are:

Induced outputs:

- 1.1 contributing to Outcome 1 (or Specific Objective 1): Targeted measures to support the socially vulnerable population are put in place.
- 2.1 contributing to Outcome 2 (or Specific Objective 2): Steps taken to design measures to sustain gender-inclusive socio-economic recovery and fight poverty.
- 3.1 contributing to Outcome 3 (or Specific Objective 3): Steps to support Moldova's long-term energy security and energy transition are taken.

Direct outputs:

- 1.1 contributing to Outcome 1 (or Specific Objective 1): To alleviate the financial burden on the vulnerable groups.
- 2.1 contributing to Outcome 2 (or Specific Objective 2): Increased predictability of measures for job creation, employability and sustainable economic growth is ensured.
- 3.1 contributing to Outcome 3 (or Specific Objective 3): Activities conducive to reforms in the energy sector are carried out.

### **3.2. Indicative Activities**

Activities related to Output 1.1:

Due to the fact that the increased gas price will lead to a significant growth of tariffs, the Moldovan Government is developing solutions to minimise the impact on final consumers. These solutions will particularly target vulnerable households that are already struggling in an economic context marked by high poverty levels and the impact of the COVID-19 pandemic. An analysis to identify the impact of the high gas prices on final tariffs for different consumers was performed based on the total number of natural gas consumers during the heating season. Different scenarios were taken into consideration using different gas price calculation formulas.

In order to minimise the impact on the most vulnerable consumers, the Moldovan government is in the prepared two emergency measures: an income-targeted framework to support socially disadvantaged households and a volume-based compensation of price increases for household bills for gas and heating. The number of households that received income-targeted assistance increased (by ca. 88 000), by increasing the threshold of the monthly minimum guaranteed income. Furthermore, the monthly sum socially disadvantaged families received increased by 40 percent. The volume-based compensation was available to about 745 000 households for gas bills and to about 222 000 households for heating bills, staggered on consumption levels. These measures were put in place by Q1, 2022. The government is in the process of developing more targeted compensation system, taking into account the income of the consumers for heating bills for the heating season 2022-2023.

The activities will aim to provide assistance to the Moldovan government and authorities to increase the capacity to deliver such basic services to its population in the fiscal year 2022 and in particular to the

vulnerable groups and to extend such actions to cover more vulnerable households and consumers. Overall, these activities will aim to provide immediate assistance to counteract the rising levels of energy poverty.

#### Activities related to Output 2.1:

The vulnerable groups will be exponentially hit by the combined negative effects of Russia's military aggression against Ukraine, energy and COVID-19 crisis which will pose acute threats for further increasing the level of poverty. The government intends to ensure continuous support for employability, and support for socio-economic recovery.

Support can include measure assisting MSMEs to cope with economic shocks in order to prevent unemployment and related poverty. Further measures can take into account social, economic and health aspects, the need to mitigate the loss of income especially in sectors particularly hit by the crisis. This support will be rolled out throughout 2022.

In general, addressing the volatile impact of the harsh socio-economic situation on vulnerable groups including the marginalised groups will require significant efforts to design and put in place adequate, tailored actions addressing the key needs. Activities related to output 2.1 could therefore include support to legislative changes, technical assistance, exchange of good practice to design adequate response actions, capacity building actions, awareness-raising and information measures as well as measures directly supporting Moldovan MSMEs and vulnerable groups including actions increasing employability, supporting economic activity and socio-economic recovery.

#### Activities related to Output 3.1:

In order to increase energy security, initiate the energy transition and increase the resilience of the Moldovan energy system to gas supply crises, legislative changes will be needed such as changes to legislation on gas and electricity defining vulnerable consumers.

Stepping up energy efficiency initiatives and in particular energy efficiency in public and private buildings, can be a key component of lowering the overall energy demand and energy costs. Such key actions for Moldova's longer term energy transition should be implemented in conjunction with the measures undertaken by International Financial Institutions (IFIs), under the EU Economic and Investment Plan and further assistance. The focus can include sectors where energy efficiency gains can be most effectively realised and the most cost effective ways to reduce the levels of energy consumed.

In general, achieving this objective will require immense analytical effort to develop evidence-based and efficient policy actions of short, medium and long-term duration. Activities can therefore include among others analysis and feasibility studies, exchanges of best practice, technical assistance targeting design and implementation of efficient measures, capacity building measures and support to legislative actions. Support to awareness-raising and information actions can be also part of such measures.

The EU-Moldova High Level Energy Dialogue will provide a platform for the necessary discussion and forum assisting in identifying adequate steps and actions, complementing the work of the relevant sub-committee and bodies under the EU-Moldova Association Agreement.

### **3.3. Mainstreaming**

#### **Environmental Protection, Climate Change and Biodiversity**

Outcomes of the Strategic Environmental Assessment (SEA) screening (relevant for budget support and strategic-level interventions).

The SEA screening concluded that no further action was required.

Outcomes of the Environmental Impact Assessment (EIA) screening (relevant for projects and/or specific interventions within a project).

The EIA screening classified the Action as Category C (no need for further assessment).

Outcome of the Climate Risk Assessment (CRA) screening (relevant for projects and/or specific interventions within a project).

The CRA screening concluded that this Action is no or low risk (no need for further assessment).

#### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this Action is labelled as G1. This implies that the principles of gender equality and women empowerment are significant objectives to this Action.

The principles of gender equality and women empowerment are significant objectives to this Action. The principle of gender equality will be embedded in the activities related to targeted social support provided to women and men in the framework of the Anti-Crisis Economic Plan and any support offered to businesses (owned by women and men) receiving funding secured by credit-guarantee schemes. Based on the activities to be conducted in the framework of the Action, vulnerable women and men shall be provided with social support to cope with the negative effects of the rising energy prices, although statistically there is a higher proportion of women in the vulnerable population. The project will hence have a direct impact on women and men as final beneficiaries of the Action. During the implementation stage and through policy dialogue, a focus on gender-specific issues will be taken into account.

#### **Human Rights**

Actions under this programme will apply the human rights based approach and be based on the principles of good governance, equality and the inclusion of socially or economically deprived or vulnerable groups.

#### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D1. This implies that the inclusion of persons with disabilities is an important objective of the Action. The Action envisages to provide targeted social support to women and men, girls and boys with disabilities, to cope with the negative effects of the rising energy prices. According to the Moldovan National Bureau for Statistics “the estimated number of people with disabilities in the Republic of Moldova is 182,000, including 11,700 children aged 0-17 years. Persons with disabilities represent 5,1% of total population of the country, and children with disabilities constitute approximately 1,7% of all children from Moldova”.

#### **Democracy**

Actions under this programme will support steps taken by the Moldovan government to address the principles of public administration developed by the European Commission in close cooperation with the OECD/SIGMA.

#### **Conflict sensitivity, peace and resilience**

The contract is intended to increase the overall resilience of economy and society to external shocks, including reducing Moldova’s dependency on imports of Russian gas.

## Disaster Risk Reduction

N/A

### 3.4. Risks and Lessons Learned

Category <sup>26</sup>	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
2,3	The operational capacity of the government to implement the resilience contract and reach to the most vulnerable groups of society/business in the most efficient and timely manner.	M	H	Strengthening the Government’s capacity to deliver on broader society’s socio/economic expectations in a strategic and efficient manner in the context of growing gas prices.
1, 2, 3	Maintenance of stability-oriented macroeconomic policy and progress in the implementation of public finance management reforms.	M	M	IMF programme is approved and remains on track.
2, 3	Lack of capacity of the government to define and implement efficiently short and medium term response measures to address the needed reform in the energy sector.	M	M	Pursue the policy dialogue and technical support to the relevant public authorities, ensure close co-ordination with international partners, business community and civil society organisations.
1	The Russian aggression in Ukraine expands to Moldova either	M	H	Unwavering support for Moldova’s sovereignty and territorial integrity, as well as continuous efforts to enhance Moldova’s resilience.

<sup>26</sup> The risk (category) can be related 1-to the external environment; 2-to planning, processes and systems; 3-to people and the organisation; 4-to legality and regularity aspects; 5-to communication and information.

	<p>through military conflict or through the destabilisation of Transnistrian region.</p>			<p>Continuous dialogue in view of a comprehensive, peaceful and sustainable settlement of the Transnistrian conflict.</p>
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### **3.5 The Intervention logic**

The underlying intervention logic for this Action is that targeted measures to support the socially vulnerable population are put in place, and steps are taken to design measures to sustain gender-inclusive socio-economic recovery and fight poverty in line with the Moldovan National Energy Crisis Action Plan and measures taken by the government to support vulnerable groups. This will help alleviate the financial burden on the vulnerable groups and ensure increased predictability of measures for job creation, employability and sustainable socio-economic growth. In addition, Moldova will be supported in achieving the long-term objective of energy transformation with steps towards increasing energy efficiency. In order to achieve the abovementioned outputs, continuous policy dialogue and technical support to the relevant public authorities will take place. In addition, close co-ordination with international partners, business community and civil society organisations will be of the highest importance. If the abovementioned outputs are delivered and are combined with the government's capacity to deliver on broader society's socio-economic expectations in a strategic and efficient manner and with the ability to maintain a stability oriented macroeconomic policy, the Action will help counteract socio-economic hardship, with a special focus on vulnerable groups in the context of the energy crisis. Furthermore, it will contribute to sustain post-COVID-19 socio-economic recovery and economic growth by providing support to vulnerable groups to cope with the combined negative effects of the rise in energy prices and the COVID-19 crisis. Lastly, it will help support Moldova's long-term objective of energy transformation with steps towards increasing energy efficiency. The EU-Moldova High Level Dialogue on Energy will be an important element in supporting this goal, alongside with the work of the relevant bodies under the EU-Moldova Association Agreement.

**3.6 Indicative Logical Framework Matrix**

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data (1 per indicator)
<b>Indicative Impact of the policy (Overall objective)</b>	To mitigate the socio-economic impact of the rising gas prices in particular on vulnerable groups, strengthen the Government's overall capacity to deliver tailor made services to these vulnerable groups and basic services to its population, and support the long-term socio-economic recovery, energy security, and energy transition of Moldova.	<i>The National Energy Crisis Action Plan of the Government of the Republic of Moldova is modified, adapted and implemented.</i>	N/A	<i>Government adopted modified National Energy Crisis Action Plan</i>	<p><i>Government report on adopted measures related to National Energy Crisis Action Plan.</i></p> <p><i>Government support to socio-economic development included in Supplementary Budget for 2022.</i></p>

<p><b>Expected Outcomes of the policy (Specific objectives)</b></p>	<p>1. Counteract socio-economic hardship, with a special focus on vulnerable groups in the context of the energy crisis.</p> <p>Sustain post-COVID-19 socio-economic recovery and economic growth by providing support to vulnerable groups to cope with the combined negative effects of Russia’s military aggression against Ukraine, the rise in energy prices and the COVID-19 crisis.</p>	<p><i>1.1 The number of households receiving ‘financial support for winter period’</i></p> <p><i>1.2 Financial support for all households receiving social support</i></p> <p><i>1.3 Support for household bills for gas and heating for the period January to March 2022.</i></p> <p><i>1.4 Creation of a new information system to streamline applications and target applicants for support for the 2022-23 winter</i></p>	<p><i>1.1 Approximately 212,000 households receiving financial support (September 2021)</i></p> <p><i>1.2 Approximately MDL 500 (social support in September 2021)</i></p> <p><i>1.3 Approximately 745 000 households supported with gas bills and approximately 222 000 households supported with heating bills in November 2021.</i></p> <p><i>N/A</i></p>	<p><i>1.1 Increase in number of households receiving financial support (January to March 2022)</i></p> <p><i>1.2 Social support maintained (January to March 2022).</i></p> <p><i>1.3 Vulnerable households supported by volume-based compensation scheme.</i></p> <p><i>1.4 Introduce new online application system for winter aid</i></p>	<p><i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i></p> <p><i>Government support to socio-economic development included in Supplementary Budget for 2022.</i></p> <p><i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i></p>
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	3. Support Moldova's long-term objective of energy transformation with steps towards increasing energy efficiency.	2.1 <i>The government takes steps to ensure continuous support for employability and support for socio-economic recovery.</i>	N/A	2.1 <i>Steps are announced/taken to ensure continuous support for employability and support for socio-economic recovery.</i>	<i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i>
		2.2 <i>Government implements a new online tool to ease administrative burden of handling social support and target the most needy beneficiaries</i>	N/A	2.2 <i>Financial and operational support programme for Ukrainian refugees to mitigate the high energy costs is under implementation</i>	<i>Government support to socio-economic development included in Supplementary Budget for 2022.</i>
		3.1 <i>Steps taken to introduce relevant legislative changes</i>		2.3 <i>Number of Ukrainian refugees benefitting from Government financial assistance</i>	<i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i>
		3.2 <i>Adopt timeline to introduce relevant legislative changes</i>			<i>Government support to socio-economic development included in</i>

				<p><i>3.1 Steps taken to introduce relevant legislative changes to ensure energy security and improve energy efficiency.</i></p> <p><i>3.2 Adopt timeline to introduce relevant legislative changes to ensure energy security and improve energy efficiency.</i></p>	<p><i>Supplementary Budget for 2022.</i></p> <p><i>IMF, OECD, IFIs.</i></p>
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<p><b>Induced Outputs</b></p>	<p>1.1 Targeted measures to support the socially vulnerable population are put in place.</p>	<p><i>1.1.1 The number of households receiving financial support in the period January to March 2022 has increased.</i></p> <p><i>1.1.2 Financial support for all households receiving social support in January to March 2022 has increased.</i></p> <p><i>1.1.3 Support for household bills for gas and heating for the period January to March 2022.</i></p>	<p><i>1.1.1</i> Approximately 212,000 households receiving financial support (September 2021)</p> <p><i>1.1.2</i> Approximately MDL 500 (social support in September 2021)</p> <p><i>1.1.3</i> Approximately 745 000 households supported with gas bills and approximately 222 000 households supported with heating bills in November 2021.</p>	<p><i>1.1.1 Increase in number of households receiving financial support (January to March 2022)</i></p> <p><i>1.1.2 Social support maintained (January to March 2022).</i></p> <p><i>1.1.3 Vulnerable households supported by volume-based compensation scheme.</i></p>	<p><i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i></p> <p><i>IMF, OECD, IFIs reports.</i></p> <p><i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i></p> <p><i>IMF, OECD, IFIs.</i></p>
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	<p>2.1 Steps taken to design measures to sustain gender-inclusive socio-economic recovery and fight poverty.</p> <p>3.1 Steps to support Moldova's long-term energy security and green transition are taken.</p>	<p><i>2.1.1 The government has ensured continuous support for employability and support for socio-economic recovery.</i></p> <p><i>3.1.1 Steps taken to introduce relevant legislative changes</i></p>	<p>N/A</p>	<p><i>2.1.1 Steps taken to ensure continuous support for employability and support for socio-economic recovery.</i></p> <p><i>3.1.1 Steps to introduce relevant legislative changes.</i></p>	<p><i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i></p> <p><i>IMF, OECD, IFIs.</i></p>
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<p><b>Direct Outputs</b></p>	<p>1.1 To alleviate the financial burden on the vulnerable groups.</p>	<p><i>1.1.1 Support provided to vulnerable households</i></p>	<p><i>1.1.1 Approximately 212 000 households receiving financial support (September 2021)</i></p> <p><i>1.1.1 Approximately MDL 500 (social support in September 2021)</i></p> <p><i>1.1.1 Approximately 745 000 households supported with gas bills and approximately 222 000 households supported for heating bills in November 2021.</i></p>	<p><i>1.1.1 Increase in households receiving financial support (January to March 2022)</i></p> <p><i>1.1.1 Social support maintained (January to March 2022).</i></p> <p><i>1.1.1 Vulnerable households supported by volume-based compensation scheme.</i></p> <p><i>2.1.1 The government has announced measures for employability and support for socio-economic recovery.</i></p>	<p><i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i></p> <p><i>Government report on adopted measures related to the National Energy Crisis Action Plan.</i></p>
	<p>2.1 Increased predictability of measures for job creation, employability and sustainable economic growth is ensured.</p>	<p><i>2.1.1 The government measures for employability and support for socio-economic recovery have been announced.</i></p>			<p><i>IMF, OECD, IFIs.</i></p>

	3.1 Activities conducive to reforms in the energy sector are carried out.	<i>3.1.1 EU-Moldova High Level Dialogue on Energy takes place</i>		<i>3.1.1. EU-Moldova High Level Dialogue on Energy continues in 2022.</i>	<i>Continued discussions in the framework of EU-Moldova High Level Dialogue on Energy</i>
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## **4. IMPLEMENTATION ARRANGEMENTS**

### **4.1. Financing Agreement**

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

### **4.2. Indicative Implementation Period**

The indicative operational implementation period of this action, during which the activities described in section 3.1 will be carried out and the corresponding contracts and agreements implemented, is 12 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this financing Decision and the relevant contracts and agreements.

### **4.3. Implementation of the Budget Support Component**

#### **4.3.1. Rationale for the Amounts Allocated to Budget Support**

The amount allocated for the budget support component is EUR 135 000 000 and for complementary support is EUR 0.

This amount is based on the commitment of the partner country to allocate national budget resources (including EU budget support) to mitigate the socio-economic impact of the crises and on the forecast of the macro-fiscal impact of Russia's military aggression against Ukraine increase in gas prices carried out by Moldova.

#### **4.3.2. Criteria for Disbursement of Budget Support**

##### **a) Conditions**

The general conditions for disbursement are as follows:

- Satisfactory progress towards mitigating the socio-economic impact of the rising gas prices, strengthen the Government's overall capacity to deliver tailor made services to vulnerable groups and in particular basic services to its population, and support the long-term socio-economic recovery, energy security, and energy transition of Moldova, as underpinned by the National Energy Crisis Action Plan updated and extended.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

##### **b) Fundamental values**

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

### 4.3.3. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Moldovan Lei will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The budget support component consists of two fixed tranches.

### 4.4. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	
	2021	2022
Budget support - cf. section 4.3	60 000 000	75 000 000
<b>Total</b>	<b>60 000 000</b>	<b>75 000 000</b>

### 4.5. Organisational Set-up and Responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the Action. The indicative Moldovan authorities involved in the implementation of the Action will include: the Office of Prime Minister, the Ministry of Labour and Social Protection, the Ministry of Infrastructure and Regional Development, National Agency for Energy Regulation of the Republic of Moldova, Energy Efficiency Agency, Ministry of Finance.

## 5. PERFORMANCE MEASUREMENT

### 5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the Action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the indicative logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The government will coordinate and monitor the development of the above-mentioned actions and policies, including possible necessary reviews. The responsible agency for each objective and measure will be in charge of developing sectoral performance-based action plans with further specified outcomes, outputs, Key Performance Indicators (KPIs) and budgets based on the evidence-based policy and the budgeting principles

of the government of Moldova. Close monitoring of the situation will be performed in coordination with the IMF and other partners such as the EBRD, the EIB and the World Bank.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the Action.

The assessment of performance indicators may require carrying out external reviews or data verification exercises to contribute to strengthening the policy monitoring framework and national statistical systems.

## **5.2. Evaluation**

The evaluation of this Action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 60 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

## **5.3. Audit and Verifications**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this Action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

## **6. COMMUNICATION AND VISIBILITY**

Communication and visibility is a contractual obligation for all entities implementing EU-funded external actions, to advertise the European Union's support for their work to the relevant audiences.

To that end they must comply with the instructions given in the [Communication and Visibility Requirements of 2018](#) (as updated by the communication and visibility requirements in force under the current programming period 2021 - 2027), notably with regard to the use of the EU emblem and the elaboration of a dedicated communication and visibility plan, to be completed for every action at the start of implementation.

These obligations apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country (for instance, concerning the reforms supported through budget support), contractors, grant beneficiaries or entrusted entities. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and delegation agreements.

Communication and visibility measures may be funded from the amounts allocated to the Action. For the purpose of enhancing the visibility of the EU and its contribution to this Action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds.

Effectiveness of communication activities on awareness about the Action and its objectives as well as on EU funding of the Action should be measured.

Implementing partners shall keep the Commission and concerned EU Delegation/Office fully informed of the planning and implementation of specific visibility and communication activities before work starts.

Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall Action to the relevant monitoring committees.

Actions related to communication and visibility will be coordinated with the Strategic communications project of the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communications.