



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-May-2022 | Report No: PIDC34105



BASIC INFORMATION

A. Basic Project Data

Country Romania	Project ID P178912	Project Name Romania Inclusive and Green Growth DPL (P178912)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Board Date Jun 30, 2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Romania	Implementing Agency Ministry of Public Finance		

Proposed Development Objective(s)

The Program Development Objective of the proposed operation series is to support the Government of Romania’s efforts to: 1) strengthen inclusion and fiscal management; and 2) foster decarbonization and climate resilience.

Financing (in US\$, Millions)

SUMMARY

Total Financing	524.20
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00
Total Non-World Bank Group Financing	24.20
Trust Funds	24.20

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed operation in the amount of US\$500 million is the first in a programmatic series of two loans to support the government of Romania to enhance inclusion, including the forcibly displaced persons from Ukraine; support fiscal sustainability; and foster decarbonization and climate resilience. Romania was classified as an upper-middle-income country based on 2020 data, but its level of income varies widely across the country. In addition, it has the highest poverty



rate and is one of the most unequal countries in the European Union (EU). Hence the inclusion agenda is paramount in the country and will likely gain added significance with the war in Ukraine and the influx of forcibly displaced persons (FDPs) into Romania. The country has also been running a large structural fiscal deficit, even prior to the pandemic, essentially because of tax cuts and permanent spending increases. With the economic and humanitarian spillovers of the war, spending pressures will increase. The war has also raised important issues on energy security and independence in addition to achieving reduced greenhouse gas (GHG) emissions. Integration of FDPs, fiscal reforms and decarbonization efforts will be important priorities for the government over the next few years. Some of these efforts will be supported through the proposed operation by providing FDPs with public services and other humanitarian assistance, undertaking fiscal reforms, including pensions and supporting climate adaptation and mitigation efforts.

Romania's macroeconomic policy framework is adequate for this operation. Despite the economic shock of the Russia-Ukraine war and its accompanying fiscal pressures, the government continues to implement a macroeconomic policy mix aimed at reducing the fiscal deficit while supporting vulnerable populations (including the forcibly displaced persons and host communities), stabilizing the public debt and containing internal and external imbalances.

Relationship to CPF

This DPL series underpins all the three objectives of the Country Partnership Framework (FY2019-23). The FDP actions map directly into the Focus Area I: 'Ensure Equal Opportunities for All', specifically, on improving access to modern health care and connecting the poor and vulnerable to jobs. The green agenda links to Focus Area III: 'Build Resilience for Shocks', specifically, on improving preparedness to natural disasters and climate change. The actions on renewables also link to the Focus Area II: 'Catalyze Private Sector Growth and Competitiveness'. In addition, the proposed operation benefits from the World Bank Group Green Resilient and Inclusive Development (GRID) approach; the Fragile Conflict and Violence (FCV) Strategy 2020-2025; and is private capital enabling (PCE).

This operation supports progress towards the WBG's twin goals in Romania. Increased support to and integration of FDPs from Ukraine into the Romanian society will help them become self-reliant and enable them to get employed. This will help them sustain themselves and provide for their families. Pension, tax and spending reforms will enable efficient use of fiscal resources and increased fiscal space. This will help the government increase fiscal buffers and improve public spending which will be beneficial for the poor and those in the bottom 40. Efforts aimed at decarbonization and increased forest cover will support a reduction in extreme weather events which typically impact the poor and vulnerable to a larger extent. Finally, increased private sector participation in renewables and building renovations will provide jobs while also supporting the transition to net zero emissions.

C. Proposed Development Objective(s)

The Program Development Objective of the proposed operation series is to support the Government of Romania's efforts to: 1) strengthen inclusion and fiscal sustainability; and 2) foster decarbonization and climate resilience. The government seeks to maintain fiscal sustainability, which was significantly impacted by the COVID-19 pandemic; protect critical social spending amid rising spending pressures associated with the war in Ukraine; and advance its green transition objectives. The proposed Green, Resilient and Inclusive growth DPL will support the government of Romania in addressing some of the key structural challenges faced by the country.

Key Results

The reforms supported by pillar 1 of the programmatic DPL series will help achieve the following results (i) increased share of FDPs with government recognized IDs; (ii) increased share of FDP women with access to reproductive healthcare; (iii) increased access to social assistance programs; (iv) access of FDPs to the Romanian labor market; (v) opportunities for training for FDP and host teachers; (vi) improvement in the fiscal position of the government through improved budgeting, lower public sector wages and increased sustainability of the public pension system. The reforms supported by pillar 2 of the programmatic DPL series will help achieve the following results (i) increase in the share of buildings renovated with



increase in energy efficiency; (ii) Increase in renewable energy contracted; (iii) training/upskilling of people affected by the decommissioning of coal mines and plants; and (iv) increased area under afforestation works.

D. Concept Description

Under the inclusion objective, the first pillar includes the emergency response to accommodate the influx of FDPs from Ukraine. While the government's program on supporting the FDPs from Ukraine is still evolving, the government has established a coordination structure for response to this humanitarian crisis at the first day of the war and structured its response to the FDP crisis through two layers of intervention: (i) Emergency Response and (ii) Protection Response. The first pillar of the DPL supports the emergency response to accommodate the influx of the FDPs from Ukraine. The response encompasses registry of FDPs, measures to provide them with access to education and health services, housing, social assistance and the labor market, in line with the EC temporary protection mechanism activated on March 4, 2022, which has a three-year horizon. It also includes measures to support host communities by increasing the capacity of local governments. The immediate short-term measures are incorporated into DPL1; the short-to-medium-term measures are part of DPL2 and integrated with the structural reform measures under the inclusion objective that focus on long-standing inefficiencies and coverage gaps in the social assistance programs and longer-term integration of FDPs in Romania.

The first pillar also addresses structural inefficiencies that have contributed to Romania's fiscal imbalances. The DPL support measures articulated in the government's medium-term reform program aiming to implement the reforms included in the National Program of Recovery and Resilience (NRRP), which is part of the European Resilience and Recovery Facility. The Bank has been providing support to the government of Romania in many of these key reform areas, prior to the formulation of the NRRP. The proposed measures in DPL1 include the adoption of program-based budgeting, adoption of electronic invoicing and reforms to the pension regulations and contribution system.

The second pillar fosters decarbonization by tackling key gaps in the legislative framework with respect to renewables, the inclusive transition from coal, the strengthening of energy efficiency in buildings and deepening of carbon sinks. In line with the European Green Deal, the government of Romania is taking steps to achieve climate neutrality by 2050. The second pillar of this DPL series supports the government's efforts in this direction through policy and institutional reforms that will help the country decarbonize and mobilize private sector capital in relevant areas like renewables and energy efficient building renovation. The operation will also support Romania's energy independence and security via increased investments in renewables and other fuels like green hydrogen and by optimizing energy consumption through energy efficiency measures.

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

Poverty and Social Impacts

Overall, the policy reforms supported by this operation are expected to have positive effects on poverty reduction with some short-term costs associated with the transition out of coal and some of the actions under pillar II. Under pillar 1, the provision of basic services for FDPs from Ukraine can have positive impacts on their welfare, while increasing the capacity of the local government can improve the availability and quality of service delivery for Romanians in host communities. Improving tax and spending efficiency can open up additional fiscal space for social spending. The actions supported by Pillar II are likely to improve the livelihood for all segments of the population, especially communities living in polluted areas, and in energy-inefficient buildings. However, the closure of coal mines and plants can lead to job losses with adverse impacts on the income of affected communities. Nevertheless, the operation includes several mitigating plans like upskilling affected workers, reinforcing the social safety nets in local communities, and revitalizing economic programs in affected regions. While an increase in renewable energy capacity and building renovations is expected to have a positive impact on wellbeing in the medium to long term, it may have some negative social and poverty impacts in the short-term through prices. Several prior actions provide strong support to women and marginalized groups.

Environmental, Forests, and Other Natural Resource Aspects



The prior actions supported by this DPL have positive or neutral environmental impacts. The pillar I prior actions of this operation are expected to have mostly neutral or positive effects on the environment, forests, and other natural resources. The FDP-related prior actions would help mitigate the potential adverse environmental effects usually associated with FDP-affected areas by providing a framework that will facilitate access to goods and services and that will reduce the risk of the establishment of unregulated FDPs camps. Selected fiscal prior actions encourage switching to e-invoicing, reducing the overall environmental implications of processing invoices, although electronic waste would have to be properly managed and discarded to avoid any potential negative environmental effects. The pillar II reforms have overall positive environmental effects. Amending the energy law will help increase low-carbon energy generation and also reduce certain types of air pollution, while proposed actions on energy renovation of buildings will result in energy efficient buildings, thereby, reducing energy use and associated GHG emissions. Despite these notable positive benefits, it is advisable that during implementation, investments in these areas ensure that land use and waste is adequately managed by the existing legislative framework, including Environmental Impact Assessments (EIA). Incentives to accelerate afforestation and reforestation will contribute to both climate change mitigation and adaptation by increasing long-term carbon storage within forests, helping balance the overall national GHG emissions, and restoring ecosystem integrity and enhance forest cover in Romania. Also, Romania's current regulations on forest regeneration and afforestation could effectively support the mitigation of negative effects, if any.

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APPROVAL

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Approved By

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