



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 30-Mar-2023 | Report No: PIDC35584



**BASIC INFORMATION**

**A. Basic Project Data**

Country Romania	Project ID P179297	Project Name Romania Second Programmatic Inclusive and Green Growth Development Policy Loan (P179297)	Parent Project ID (if any) P178912
Region EUROPE AND CENTRAL ASIA	Estimated Board Date Jun 30, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Romania	Implementing Agency Ministry of Finance		

**Proposed Development Objective(s)**

The Program Development Objective (PDO) of the proposed 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**

<b>Total Financing</b>	650.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	650.00
World Bank Lending	650.00

**Decision**

The review did authorize the preparation to continue



## B. Introduction and Context

### Country Context

**The proposed operation of US\$650 million is the second in a programmatic series of two operations to support the Government of Romania to enhance inclusion; strengthen fiscal management; and foster decarbonization and climate resilience.** Following the first operation comprising a EUR 600 million IBRD loan (equivalent to US\$641.7 million) and a US\$24.2 million grant from the IBRD Fund for Innovative Global Public Goods Solutions, this second operation comprises a proposed US\$650 million IBRD loan. Romania is a high-income country that continues to see substantial poverty and inclusion challenges, as reflected in the forthcoming Systematic Country Diagnostic (SCD) Update as well as the 2018 SCD. Regional income and service delivery disparities are wide, the impact of social transfers on reducing poverty and inequality is among the lowest among European Union (EU) countries. The population is the poorest and among the most unequal in the EU, with 11.3 percent of the population estimated to be poor (using the international poverty line of \$6.85-a-day in 2017 Purchasing Power Parity terms) and with a Gini coefficient of equivalized disposable income of 34.3 in 2021, fourth highest in the EU and above the EU average of 30. Hence, the inclusion agenda is paramount in the country, gaining added significance with Russia's invasion of Ukraine and the unprecedented influx of forcibly displaced persons (FDPs) into Romania. The country has also been running a large structural fiscal deficit, averaging 3.5 percent of GDP during 2010-21, fueled by tax cuts and numerous exemptions, and untargeted permanent spending increases. With the economic and humanitarian spillovers of Russia's invasion of Ukraine (particularly support to households and firms in the face in skyrocketing energy prices and accommodation of the refugees), fiscal pressures are on the rise. The war in Ukraine has also raised issues of energy security and independence, adding to the debate on the sector's role in achieving reduced greenhouse gas (GHG) emissions. As an EU member, Romania is signatory to the European Green Deal with its ambitious, timebound decarbonization targets of reaching the net zero emissions by 2050.

**Romania's macroeconomic policy framework is adequate for this operation.** Despite the economic shock of the Russia's invasion of Ukraine 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 inclusion actions – those on FDP, host community, the disabled, and the social protection reforms - 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. Fiscal 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 (PDO) of the proposed series is to support the Government of Romania's efforts to: 1) strengthen inclusion and fiscal management; and 2) foster decarbonization and climate resilience.** The government seeks to improve fiscal management, as fiscal balances were significantly impacted by the COVID-19 pandemic; protect and improve efficiency of critical social spending amid rising spending pressures associated with the war in Ukraine; and advance its green transition objectives. The proposed Inclusive and Green 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 access to FDPs to healthcare and education services and (ii) to the Romanian labor markets; (iii) increased access to social assistance programs; (iv) better integration of adults with disabilities; (v) improvement in the fiscal position of the government through improved budgeting and higher tax collection. The reforms supported by pillar 2 of the programmatic DPL series will help achieve the following results (vi) increase in the share of buildings renovated with increase in energy efficiency; (vii) Increase in renewable energy contracted; (viii) training/upskilling of people affected by the decommissioning of coal mines and plants; and (ix) increased area under afforestation works.

### D. Concept Description

**Under the inclusion objective, the first pillar includes the emergency response to accommodate and help integrate the FDPs from Ukraine and increase the impact of social protection on reducing poverty.** To further assist the FDPs and host communities, DPL2 will support the government in the establishment of systems and processes to share the FDP registry with relevant national and subnational governments to enable better provision of social services and integration of FDPs. In addition, it will also support the provision to FDPs of public employment services and Romanian language training and ensure that FDP and host community students benefit equally from resources provided to FDP hosting schools. To enhance inclusion, DPL2 aims to support measures that will strengthen the adequacy of social assistance, enable implementation of the Minimum Inclusion Income Program and the deinstitutionalization of persons with disabilities.

**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. To strengthen fiscal management, DPL2 supports measures that will enhance tax collections by reducing tax expenditures.

**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. Particularly, this second operation builds on energy efficiency measures in hard-to-abate sectors, supports the development of low carbon fuels and the transition out of coal and further strengthens afforestation and reforestation efforts.

### 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 mostly positive or neutral effects on the welfare of Romanian households in the long run, with some short-term costs associated with some of the actions under both Pillar I and Pillar II.** Most prior actions under Pillar 1 are expected to bring positive or neutral poverty and social impacts, except for measures reducing tax exemptions, which can have negative short-term impacts but positive medium-term welfare impacts. Most prior actions under Pillar 2 are expected to bring positive or neutral poverty and social impacts, provided the potential unintended effects on the poor and vulnerable are mitigated properly. This is especially true for the actions related to the development of green hydrogen, the phase out of coal and increased afforestation and reforestation efforts. 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. 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 neutral or positive effects on the environment, forests, and other natural resources. Actions to ensure the right for FDPs to access social services help mitigate the potential adverse environmental effects associated with FDP-affected areas like subsistence use of the environment to meet basic needs and unregulated waste disposal or water use. The access of FDPs to services and assistance reduces the risk of establishment of unregulated FDP camps or informal settlements. The remaining actions under this pillar are expected to have neutral effects. The Pillar II policy and institutional reforms have significant positive effects while the implementation related potential negative environmental effects in the medium- to long-term can be dealt with by Romania given its existing legal framework. Actions aiming to promote renewable hydrogen and low-carbon gases have several potential positive environmental effects, as they are expected to lead to decreased reliance on fossil fuels, leading reduced greenhouse gas emissions while also reducing some types of air pollution. These measures will not only have environmental benefits but will also have positive effects on health and human capital. Decarbonization Law and actions to accelerate the decarbonization of the industrial sector in Romania by incentivizing energy efficiency improvements primarily aims to have positive environmental impacts by phasing out coal-fired electricity generation and coal extraction, as well as improving energy efficiency, thus reducing greenhouse gas emissions and pollution. Laying down binding rules for afforestation and reforestation will contribute to both climate change mitigation and adaptation. It will increase long-term carbon storage within forests and will help balance the overall national GHG emissions. It will further help to restore ecosystem integrity and enhance forest cover in Romania. 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).

#### CONTACT POINT

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**APPROVAL**

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**Approved By**

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