DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 19 July 2023[1]

MOLDOVA

MOLDOVA GAS SECURITY SUPPLY EXTENSION

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

1 As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

ACB	Ananiev-Cernauti-Bogorodciani
ANRE	Moldovan Energy Sector Regulator Authority
bcm	Billion cubic metres
ca.	Circa
CART	Counterparty
CGAP	Corporate Governance Action Plan
CCG	Climate Corporate Governance
CIS	The Commonwealth of Independent States
CPI	Consumer Prices Index
CT Risk	Carbon transition risk
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortisation
EC	European Commission
EFET	European Federation of Energy Traders
ENERSAP	Energy Reform Action Plan
ESP	Environmental & Social Policy
ETI score	Expected Transition Impact score
EU	European Union
EUR	Euro
FX	Foreign Exchange
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
GET	Green Economy Transition
GoM	Government of Moldova
GDP	Gross Domestic Product
GSAs	Gas Supply Agreements
IEA	International Energy Agency
IFI	International Finance Institutions
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
JSC	Joint Stock Company
k	Thousand
LGD	Loss given default
LNG	Liquefied natural gas
m	Million
mcm	Million cubic meters
MDL	Moldavian Leu
MWh	Megawatt-hour
NBM	National Bank of Moldova
NDC	Nationally Determined Contributions
OCCO	Office of Chief Compliance Officer
PC Risk	Physical Climate Risk
PD	Probability of Default
PM	Prime Minister
PPR	Procurements Policies and Rules

PSAR	Project Support and Reimbursement Agreement
PSD	Project Summary Document
PSO	Public Service Obligation
PTI score	Portfolio Transition Impact score
RAROC	Risk Adjusted Return on Capital
SDKRI	Sebelinka-Dneproppetrovsk-Krivoi Rog-Ismail
TC	Technical Cooperation
TI	Transition Impact
TSO	Transmission System Operator
TTF	Title Transfer Facility
YE	Year end
y-o-y	Year-over-year
VMTG	VestMoldTransgaz
UK	United Kingdom
US	United States of America
USAID	United States Agency for International Development

PRESIDENT'S RECOMMENDATION

The attached report for an operation in favour of the Republic of Moldova is submitted for consideration by the Board of Directors.

Board approval is sought for up to EUR 200 million increase of a 3-year EUR 300 million sovereign revolving loan in favour of the Republic of Moldova signed in June 2022. The proposed facility increase will be on-lent to Energocom JSC, a state-owned energy trader for additional accumulation of strategic gas reserve to be stored in Ukraine and other European storage facilities and emergency gas supplies for Moldova, if required.

Work is underway on a best efforts basis to secure donor grant funding [REDACTED], then the additional EBRD loan of EUR 200 million will correspondingly reduce.

The expected transition impact of the Project will stem from: (i) a) strengthening Moldova's energy security by creating strategic gas reserve while at the same time diversifying gas supply routes and sources and b) continuing sector reforms under the Energy Reform Action Plan which includes the corporate governance improvement programme for Energocom JSC, which aims at, inter alia, increasing transparency and standardisation of procurement practices (*Resilient* transition quality); and (ii) providing an emergency finance facility to prevent gas supply disruption and safeguard access to vital energy services for the Moldovan population and displaced Ukrainians in advance of the next heating season (*Inclusive* transition quality).

The operation is consistent with the Bank's Strategy for Moldova, the Energy Sector Strategy, Equality of Opportunity Strategy and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed facility increase substantially on the terms of the attached report.

Odile Renaud-Basso

BOARD DECISION SHEET

Moldova Gas Security Supply Extension – DTM 54782	
Transaction / Board Decision	Board approval[2] is sought for up to EUR 200 million increase of a 3-year EUR 300 million sovereign revolving loan in favour of the Republic of Moldova (the "**Borrower**") signed in 2022 (the "**Existing Facility**"). The proposed facility increase will be on-lent to Energocom JSC, a state-owned energy trader (the **"Company"**, **"Project Entity", "Energocom"**) for additional accumulation of strategic gas reserve to be stored in Ukraine and other European storage facilities and emergency gas supplies for Moldova, if required. Work is underway on a best efforts basis to secure donor grant funding [REDACTED] and to the extent that donor grant funding may be obtained, then the proposed EBRD loan of EUR 200 million will correspondingly reduce. Negotiations are now underway with potential donors.
Client	**Borrower**: Moldova is rated B3 with a negative outlook by Moody's. **Project Entity**: Energocom is a 100% state-owned energy trader. In 2022 Energocom reported EUR 441 million of revenues and EUR 7 million of net profit.
Main Elements of the Proposal	<u>Transition impact</u> **Primary Quality – *Resilient***: The project will a) strengthen Moldova's energy security by creating strategic gas reserve while at the same time diversifying gas supply routes and sources and b) continuing sector reforms as part of the ENERSAP developed in parallel to the facility which includes the corporate governance improvement programme for Energocom, which inter alia includes increasing transparency and standardisation of procurement practices. **Secondary Quality – *Inclusive*:** The project will also provide an emergency facility to prevent gas supply disruption and safeguard access to vital energy services for the Moldovan population and displaced Ukrainians in advance of the next heating season. <u>Additionality</u> Financing structure. Risk mitigation. Policy. EUR 300 million Existing Facility allowed Moldova to meet nearly 20% of gas demand in 2022 with supplies from the EU. An increase of the EBRD financing in current low gas price environment will help Moldova's energy security to substantially diversify away from Gazprom and accumulate strategic gas reserves. <u>Sound banking</u> – sovereign loan.
Key Risks	Key risks include (i) political and macro-economic risks; (ii) sanctions risk; (iii) integrity risks. These risks are mitigated via structuring the transaction with Moldova being the primary obligor; incumbent reformist government well supported by international partners, and the existing IMF programme with increased support in view of the current socio - economic pressures.
Strategic Fit Summary	• Strategy for Moldova: Strengthen energy security. • Energy Sector Strategy: Energy security. • Equality of Opportunity Strategy: Ensuring access to services.

[2] The decision is requested in accordance with Material and Non-material Change (Projects), Approval and Reporting Procedures (BDS96-157).

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	• Up to EUR 200 million increase of a 3-year EUR 300 million sovereign revolving loan in favour of the Republic of Moldova signed in 2022. The proposed facility increase will be on-lent to Energocom to finance additional accumulation of strategic gas reserve to be stored in Ukraine and other European storage facilities and emergency gas supplies for Moldova, if required. • An increase of the EBRD financing envelope to up to EUR 500 million in current low gas price environment will help Moldova's energy security by materially diversifying away from Gazprom [REDACTED]. EUR 500 million will continue to be used in the next heating season, as the facility proceeds are repaid and re-disbursed in view of the revolving nature of the facility. • Work is underway on a best efforts basis to secure donor grant funding [REDACTED], then the additional EBRD loan of EUR 200 million will correspondingly reduce. Negotiations are now underway with potential donors. • The strategic importance of the transaction is driven by the energy security objective to ensure continued and uninterrupted gas supply in Moldova, both in 2023 and following year. This is essential to safeguard basic needs and economic livelihoods of the local population and refugees from Ukraine.
Existing Exposure	**EUR 698 million sovereign debt to Moldova** equivalent to 67.4% of the EUR 1,035 million country portfolio. Sovereign operating assets are EUR 423 million out of the total EUR 698 million operating assets as of June 2023.
Maturity / Repayment	• The loan increase tenor will sit within the Existing Facility tenor (no extension past the current final maturity date). • [REDACTED]
Use of Proceeds	The facility will be utilised to strengthen Moldova's energy security by accumulating additional strategic gas reserve to be stored in Ukraine and other European storage facilities and emergency gas supplies for Moldova, if required. EBRD loan will disburse under Gas Supply Agreements ("**GSAs**") [REDACTED]
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	• The Borrower: Republic of Moldova • The Project Entity: Energocom • The Off-taker: S.A. Moldovagaz • Gas suppliers: Suppliers identified at pre-qualification stage

Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	None
Other material agreements	[REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	**A. Technical Cooperation (TC)** None **B. Blended Concessional Finance** Work is underway on a best efforts basis to secure donor grant funding [REDACTED], then the additional EBRD loan of EUR 200 million will correspondingly reduce. The grant will be used for supplementing the existing and new EBRD funding for the acquisition and storage of natural gas for Moldova for the next two heating seasons. The proposed grant is required in the extraordinary circumstances of the ongoing war on Ukraine and its effect on Moldova. Due to the sharp increase in gas prices, the government stepped in with gas subsidies for households and businesses, [REDACTED] , which has put further pressure on the budget. It will make the project viable through reduced Government spending on compensations but also contribute to strengthening Moldova’s energy security by providing financing mechanisms to mitigate the risk of disruption, accumulate strategic gas reserve and support diversification of natural gas suppliers and delivery routes.
Technical Cooperation (TC)	None.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Gas accounts for 31%[3] of Moldova's energy consumption mix. In contrast to majority of its neighbours, where industry is the main consumer of gas, 70% of Moldova's gas is consumed by population and district heating utilities. As of 18 June 2023 around 848 thousand refugees entered the country with most of them only transiting further, while 110 thousand remained in Moldova. With 2.7 million of local population, this represents the highest number per capita in any affected country, and has increased considerably national energy demands, putting pressure on the energy system. With no domestic sources of energy and no gas storage, Moldova relies on gas imports from Russia via the transit pipeline to Western Europe that crosses Ukraine under a long-term gas supply contract with Gazprom valid until 2026. This makes Moldova vulnerable to gas price volatility and supply disruptions. Indirectly, Moldova is also affected by a complex relationship between Gazprom and Ukraine for gas transit, currently governed by a long-term gas transit contract that expires in 2024. Therefore there is a risk of natural gas supply disruptions to Moldova [REDACTED]. This risk has escalated since the start of the Russia-led war on 24 February 2022.

Moldova's current 5-year gas supply contract with Gazprom was signed on 29 October 2021 in the midst of the energy crisis in Europe [REDACTED].

EUR 300 million Existing Facility was approved by the Board in 2022, fully utilised by mid-February 2023 and the delivery of all gas was completed by 1 March 2023. Before EBRD financing was put in place, Moldova had been buying nearly 100% of its gas from Gazprom. EUR 300 million Existing Facility allowed Moldova to meet nearly 20% of gas demand in 2022 with supplies from the EU. [REDACTED].

A total of 0.3 bcm of natural gas was acquired with the Existing Facility proceeds, of which 2/3 were sold to Moldovan customers and 1/3 are stored in Ukrainian underground gas storages. A total of 43 contracts were concluded with 3 gas suppliers (of the 7 pre-qualified under the EBRD's tenders): ERU, EP Commodities and DXT International.

An increase of the EBRD financing envelope to up to EUR 500 million in current low gas price environment will help Moldova's energy security by materially diversifying away from Gazprom [REDACTED] and accumulating strategic gas reserves in Ukrainian and Romanian storages for future years in line with Moldova Country Strategy and Energy Sector Strategy focusing on energy security in Ukraine and affected countries. The continued ability to procure gas is strategically important for Moldova's energy security and livelihood of its population incl. the increasing number of refugees from Ukraine.

Moldova is a small country that consumes 1.2 bcm each year, with annual gas bill reaching nearly EUR 500 million in current low gas price environment, therefore extra EBRD financing is highly additional. All the gas purchased with EBRD financing will be supplied to the Right Bank only. Transnistria, the breakaway territory not controlled by the government of Moldova, will continue

[3] Based on the Moldova energy statistics with the government sources. https://statistica.gov.md/category.php?l=en&idc=128&. According to that one, natural gas represented 30.5% of the energy mix of the country in 2020, assuming electricity and heat are generated from gas fired plants.

using 2.0 bcm gas supplied by Gazprom. The government of Moldova does not take responsibility for the gas consumed in Transnistria region.

Following recent progress in the implementation of the third Energy Package and commissioning of interconnector with Romania in 2021 (financed by EBRD), Moldova appears to have no legal restraints to diversify away from Russia and purchase gas from the EU hubs. In order to enable gas procurement outside of the long-term contract with Gazprom and introduce competition to existing monopoly of Moldovagaz, the government authorised Energocom to procure gas from alternative sources on a spot market by running tenders mainly on EU and Ukrainian borders.

This will enable the Bank to disburse the loan directly to pre-qualified EU suppliers which were selected by Energocom and agreed by EBRD in line with the EBRD procurement rules. The transaction is structured to ensure full transparency and traceability of loan proceeds. Loan disbursements will be made directly to such suppliers against invoices for dispatched gas.

1.2 TRANSITION IMPACT

The tables below set out the TI Objectives and details of the Project. This transaction being an extension to the Existing Facility is excluded from ETI and is awarded the PTI score of 70 in line with the original transaction. Additional TI indicators were added to track the implementation of the requested extension and include the diversification of gas supplies and the volume of purchased gas (i.e., monitoring indicators 1.5 and 1.6).

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	The Project introduces new operational approaches that will have a significant effect on the efficiency of client operations.	The project will improve energy security by providing financing to create strategic reserve facilitating diversification of gas supply imports to Moldova. Energocom is the first alternative supplier to the existing monopoly importer, Moldovagaz, and mitigate Moldova's reliance on Gazprom by procuring gas from EU suppliers and storing it in neighbouring Ukraine or Romania. The development of renewables in Moldova will also help the country reduce its dependence on imported gas.
1.2	The Project entails a policy dialogue initiative that has been assessed as Strong Good by the sector economist.	In line with the agreement with the Bank as part of the Existing Facility, the government has introduced necessary amendments to the Gas Law to address energy emergencies in the future. The Bank helped through a TC project in place launched in 2019, to amend the law and introduce the harmonised tariffs and inter TSO compensation mechanism, following the transaction to finance the Moldova–Romania gas pipeline. This TC was extended to also include the additional amendments required under the current project. The Project will involve policy dialogue to deliver on the existing and extended scope of activities covered in the ENERSAP, namely amendments to the Gas Law (approved by the Parliament under the Existing Facility), network code

		compliance and unbundling requirements. It will also include policy dialogue to introduce changes to the Electricity Law required for the development of renewables and implementation of renewable energy auctions in Moldova. Energocom will finalise the implementation of the recommendations prepared by the KPMG in 2020-21 as part of CGAP under EBRD-led TC project related to the improvement of corporate governance of Energocom and increasing transparency and standardisation of procurement practices in line with international best practices and building the capacities within the Energocom's procurement function. There is a follow-up USAID financed project which, in coordination with the EBRD, is aimed at improving Energocom's capacity to purchase gas on competitive European markets. The Bank also as part of the original transaction launched the appointment of Reform Support Teams that will help building capacity in the Ministry of Infrastructure and Energy and Public Property Agency to help ensure effective delivery of ENERSAP commitments; define short, medium and long-term reform priorities for energy sector reform.
1.3	The company will improve its CG from a base level that is below average in the country and sector. The CGAP addresses most of the CG issues identified in the company. [REDACTED]. There will be no impact of the CGAP beyond the client.	The ENERSAP includes provision for a CGAP and a CCG assessment. Energocom will finalise the implementation of the CGAP, including the introduction of internal controls and transparency measures. The CCG assessment will result on an initial disclosure that will set out: • The main principles of the Company's adopted CCG Action Plan. • The anticipated impacts of climate change and climate policies on its business; and an initial assessment of the Company's exposure to climate risks.

Secondary Quality: Inclusive

Obj. No.	**Objective**	**Details**
2.1	Safeguarding energy provision to maintain vital services for the population.	The Project will provide an emergency facility to prevent gas supply disruptions and maintain a reliable supply of vital energy services in advance of the main heating season for both the Moldovan population nd Ukrainians refugees, predominantly women, children and elderly.
2.2	Supporting human capital development for local workers	The Project will support human capital development by providing training to local workers to build a selected gas procurement team at Energocom, which

		will procure both emergency gas supplies and gas to be stored as a reserve from pre-qualified suppliers under EBRD PP&Rs.

Delivery risks. The TI delivery risks associated to the transaction mainly stem from (i) no reform being introduced in the country to open the gas market and diversify the gas imports, and restructuring of Energocom not being implemented. [REDACTED] (ii) increased threat to energy security and ability of Moldova to maintain liquidity and financial stability of Energocom, in view of increased gas prices and declined revenue collection. The first risk is mitigated by clear conditionalities included in the developed ENERSAP and CGAP which are part of the legal documentation for this project. The second risk is mitigated by support from the Bank's financing package required by Moldova to ensure uninterrupted gas supply to the country.

1.3 ADDITIONALITY

Identified triggers	**Description**
A significant share [REDACTED] of the project is to finance working capital	100% of the Bank's proceeds will be used to finance the Company's working capital.
A subsequent/consecutive transaction with the same client with the same use of proceeds and in the same destination country	100% of proposed new financing will be used to finance gas purchases for Moldova's immediate consumption or building up strategic gas reserve.

Additionality sources	**Evidence of additionality sources**
Financing Structure • EBRD offers financing that is not available in the market from commercial sources on reasonable **terms and conditions** [REDACTED]. Such financing is necessary to structure the Project. • Public sector: EBRD investment is needed to close the **funding gap**. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them. • Crisis response: EBRD financing **effectively bridges a financing gap** due to adverse market conditions.	EBRD financing will enable Energocom to secure necessary funding to procure the gas on a stand-alone basis as neither have they had such funds nor the government of Moldova ("GoM") has such resources available in the 2023 budget. [REDACTED]. EUR 300 million Existing Facility allowed Moldova to meet nearly 20% of gas demand in 2022 with supplies from EU. An increase of the EBRD financing in current low gas price environment will help Moldova's energy security to substantially diversify away from Gazprom and accumulate strategic gas reserves in Ukrainian and other European storages for future years [REDACTED]. Therefore extra EBRD financing is highly additional.

Policy, sector, institutional, or regulatory change • EBRD's involvement in a Project is considered additional when it is designed to **trigger a change in the policy**, sector, institutional or regulatory framework, or enhance practices at the sector or country level.	- The project entails a policy dialogue initiative which includes implementation of an ENERSAP, composed of necessary primary and secondary legislation required for full third-party access, functioning wholesale and retail markets, effective unbundling and further EU market integration with revision to the energy market rules. - The project will implement an enabling framework for renewable energy auctions and facilitate Moldova's first renewable auction by adopting relevant amendments to the Renewable Energy Sources Law and secondary legislation, and by launching the renewable energy auction with selection of winning bidders.
Standard-setting: helping Projects and clients achieve higher standards • Client seeks/makes use of EBRD expertise on **best international procurement standards**. • Client seeks/makes use of EBRD expertise on **corporate governance** improvements, including for climate risk management.	- Energocom will be using EBRD facility to purchase gas on the basis of EFET contracts from the pre-qualified suppliers selected according to the Bank's PP&R during pre-qualification stage. - Energocom will implement CGAP with targeted actions to improve the CCG and transparency in line with agreed best international practice. - Energocom will work with USAID to improve the capacity to purchase gas on competitive markets.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Project specific risks		
Sanctions risk	Low/High	Moldovagaz is a 50%+1 subsidiary of Gazprom of Russia. Gazprom is currently subject to certain specific prohibitions/restrictions imposed by a number of jurisdictions (including the US, UK, Canada). Some of such restrictions would also extend to Gazprom's subsidiaries.[REDACTED] Mitigants: supplying gas through Moldovagaz is the only option to physically bring gas for Energocom and then to final consumers. Moldovagaz owns the transmission and distribution networks that reach out to 90% of consumers in Moldova. The gas financed under the EBRD loan will not be acquired from either Gazprom or Gazpromneft (but from pre-selected EU traders).
Integrity risk	Medium/High	[REDACTED]
Liquidity risk	Medium/Low	Energocom may experience payment delays from Moldovagaz, which have already accumulated [REDACTED] payment arears to Gazprom for gas consumed by Transnistria, the breakaway territory of Moldova, which does not pay for consumed gas. In addition, Moldovagaz may experience low collections or lack of full and timely retail gas tariff adjustments from the Regulator. Mitigants: (i) for emergency gas purchases on EU and Ukrainian borders and subsequent sale to Moldovagaz, the GoM imposed Public Service Obligation (PSO) on Moldovagaz to off-take all gas from Energocom and pay for it in a timely manner. Since the signing of the Existing Facility the Regulator and the GoM have been working on a timely retail gas tariff adjustment to reflect price of gas sourced via Energocom's tenders; (ii) Republic of Moldova will be the primary obligor on all payment and performance obligations of Energocom.
External risks		
Political risk	High/High	Moldova remains in a state of emergency. Hybrid efforts continue aimed at destabilising the pro-reform and pro-EU authorities and reversing the country's geopolitical orientation, exploiting Moldova's socio-economic difficulties and remaining societal divisions along geopolitical and identity lines. President Maia Sandu and the new government led by PM Dorin Recean (in office since February 2023) have put more focus on defence and security. The government continues to rely on a stable single-party parliamentary majority. Moldova's international partners have stepped up their assistance, pledging to provide all relevant support to strengthen Moldova's resilience, security, stability, economy, and energy supply. At Moldova's request, the EU has agreed to

		establish its civilian Partnership Mission in Moldova (EUPM Moldova).
Sovereign risk	Medium/High	The public debt level as share of GDP stood at 33.2% in 2021 (MDL 87.2 billion), up from 28.1% in 2019 prior to the pandemic on the back of the increased fiscal costs due to Covid-19 policy response. External public debt, which is denominated in foreign currency and to a large degree owed to multilateral donors under concessional terms, represented around 57.5% of total public debt at the end of 2022. According to the IMF (December 2022), Moldova remains at low risk of external and overall debt distress. [REDACTED]. Risk factors to the debt sustainability include significant shocks to the economic growth, sizeable contingent liabilities and absence of needed structural reforms. Fiscal discipline remains critical to safeguard public debt sustainability. Moody's reaffirmed Moldova's rating at B3 with Negative Outlook in February 2023. According to Moody's, credit strengths include Moldova's manageable debt burden on the back of sizeable international support and long-term concessional terms, , improved resilience of the banking sector enabled by reform progress under the IMF programme and willingness and ability to absorb technical expertise and financial support from the international community to help strengthen the institutional framework. [REDACTED]. The prolongation of war on Ukraine increases geopolitical risks and will have an impact on Moldova's economic confidence, trade and investment prospects.
Exchange rate risk	Medium/ Medium	Moldova was one the hardest-hit economies by the war on Ukraine, seeing the Lei depreciation by 7.4% in 2022. However, that was reversed by 7.5 % appreciation in 2023 (up to 6 June). External financing from IFIs led to increase in foreign exchange reserves, surpassing the pre-war level and reaching USD 4.8 billion. Strengthened market confidence, large interest rate differentials and significant external financing could support further the exchange rate in short run. The latest IMF programme review in April injected additional USD 96 million. As a result of the positive foreign exchange market conditions and sharply decelerating inflation, the National Bank of Moldova (NBM) has more room for downward adjustment of policy rate.

2. MEASURING / MONITORING SUCCESS

Overall objectives of Project	***Monitoring benchmarks***	***Implementation timing***
- Good financial and operational performance - On-time Project implementation	[REDACTED]	[REDACTED]

Primary Quality: Resilient

Obj. No.	**Monitoring indicator**	**Details**	**Baseline**	**Target**	**Due date**
1.1	Practices of the relevant stakeholder improved (operational)	Energocom to purchase gas on competitive European markets.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Legal, institutional or regulatory frameworks in target areas improved	ENERSAP is implemented introducing (i) necessary primary and secondary legislation required for full third-party access, functioning wholesale and retail markets, effective unbundling and further EU market integration with revision to the energy market rules; and ii) implementing an enabling framework for renewable energy auctions and facilitate Moldova's first renewable auction by adopting relevant amendments to the Renewable Energy Sources Law and secondary legislation, and by launching the renewable energy auction with selection of winning bidders and (iii) building capacity in the Ministry of Infrastructure and Regional Development and Public Property Agency to deliver on sector and ownership function reforms.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Actions in CGAP are implemented	Introduction of internal controls and transparency measures at Energocom. Public Property Agency to improve state ownership function in line with IMF programme.	[REDACTED]	[REDACTED]	[REDACTED]

1.4	CCG developed	Energocom to develop CCG in accordance with ENERSAP.	[REDACTED]	[REDACTED]	[REDACTED]
1.5*	Operational performance of the client: efficiency	Total amount of gas (volume) to be purchased using the extension MWh.	[REDACTED]	[REDACTED]	[REDACTED]
1.6*	Operational performance of the client: efficiency	Diversification of gas supplies such as share of planned imports that will be purchased using this extension.	[REDACTED]	[REDACTED]	[REDACTED]

*Additional benchmarks to monitor the proposed transaction which is the extension of the Existing Facility.

Secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Provision of vital services/goods maintained	To continue the supply of vital energy services and sustain livelihoods of Ukrainian refugees and the Moldovan population.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Training programme developed and implemented	To promote human capital development for local workers by introducing a training programme for the new procurement and trading team to be established at Energocom.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

Moldova is rated by Moody's at B3 with a negative outlook.

3.2 PROJECT ENTITY

Energocom is a 100% state-owned enterprise established by the government of Moldova in 2005 as an electricity importer and domestic electricity supplier. In October 2021 the government appointed Energocom to act as an alternative gas importer to Moldovagaz by buying gas from EU suppliers and selling it to Moldovagaz.

3.3 KEY OFF-TAKER

Moldovagaz is an integrated company, incorporated in 1999, that acts as an importer of Russian gas, transmission system operator and monopoly gas distributor. Moldovagaz is controlled by Gazprom (50%+1 share), Moldova owns 35.3%, 13.4% belongs to Tiraspoltransgaz and a few percent to individual shareholders (employees).As per Moldovan gas regulator's decision of 2019, Moldovagaz is under a public service obligation for the supply of gas to all final consumers, which is valid until the end of 2026. Moreover, in October 2021 the regulator imposed on Moldovagaz a new public service obligation of last resort supply for a period of three years. Moldovagaz owns the majority of transmission and distribution network of 1,800 km (of which 1,550 km is used for national transmission and 250 km is used for transit) that reaches 90% of consumers in the country and through which the gas acquired under the project could be delivered to customers.

4. MARKET CONTEXT

With no domestic sources of energy and no gas storage, Moldova is highly dependent on imported natural gas that accounts for nearly 30% of the energy mix. Until 2022 Moldova's wholesale gas market was [REDACTED] dominated by Moldovagaz. Nearly all of Moldova's gas demand was supplied solely from Russia (with transit via Ukraine) under a contract signed between Moldovagaz and Gazprom in October 2021 and expiring in 2026. [REDACTED]

Following recent progress in the implementation of the third Energy Package and commissioning of Romanian gas interconnector in November 2021, Moldova had no longer legal restraints to purchase gas from EU hubs. In order to enable gas procurement outside of a long-term contract with Gazprom and introduce competition to existing monopoly of Moldovagaz, the government authorised Energocom to procure gas from alternative sources on a spot market by running tenders mainly on EU and Ukrainian borders. In 2022 Energocom started to penetrate the market and is buying and selling gas based on Moldovan needs using the EUR 300 million Existing Facility signed in June 2022.

Unseasonably mild weather conditions, lower-than-expected gas use, strong LNG supply and gas inventory levels standing well above their historic averages provided strong downward pressure on European gas prices. Gas prices on the TTF continued to drop in 2023 reaching EUR 38/MWh on 15 June, the lowest level since November 2021 and 90% lower than the all-time highs last summer, although remaining more than three times the historic average of the 2016-20 period.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL SUMMARY
[REDACTED]

5.2 PROJECTED PROFITABILITY FOR THE BANK
[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised C (ESP 2019) and low risk. The proposed transaction involves a loan to the Government of Moldova which will be on-lent to Energocom, who will buy gas from EU suppliers and sell it on to Moldovagaz. Energocom owns no gas storage or transportation assets, while key environmental risks on this transaction are associated with the physical infrastructure owned by others in Moldova and Romania. Therefore, given the structure of the transaction (gas purchase), there will be limited [REDACTED] leverage over the gas infrastructure that will be utilized for supply of gas to and within Moldova. However the Bank has an existing relation

with VestMoldTransgaz where there is an obligation to comply with and implement EBRD's Performance Requirements. This has been monitored under the existing loan and results of the monitoring show good performance. This monitoring will be continued in spring 2024.
The sovereign PC score for Government of Moldova is 3, with no further assessment required.

6.2 INTEGRITY

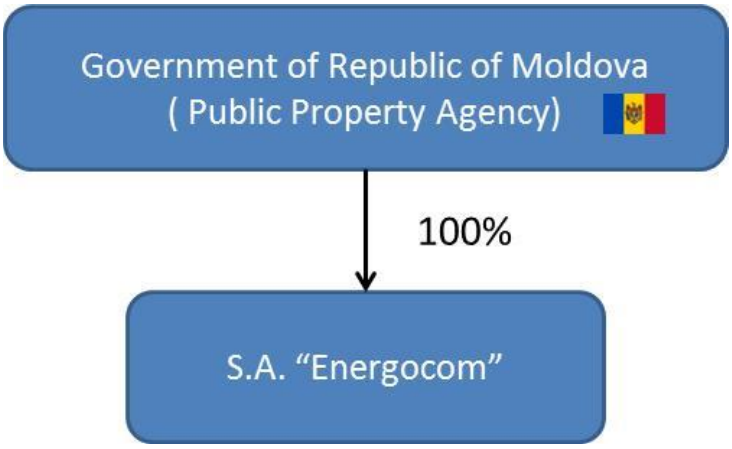
In conjunction with OCCO, updated integrity due diligence was undertaken on Energocom (the loan beneficiary), its senior management, pre-qualified gas suppliers and other relevant counterparties including the off-taker, Moldovagaz. The updated review did not reveal any new integrity concerns since the review of the Existing Facility in 2022 [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Energocom's Shareholding Structure
ANNEX 2	Energy Security Context in Europe
ANNEX 3	Sustainability of Public Debt for Moldova
ANNEX 4	Financial Analysis Summary
ANNEX 5	Moldova Gas Market Analysis
ANNEX 6	Energy Sector Reform Action Plan Implementation Status
ANNEX 7	Green Assessment Summary
ANNEX 8	Sanctions General Overview
ANNEX 9	Project Implementation

ANNEX 1. ENERGOCOM'S SHAREHOLDERS STRUCTURE



ANNEX 2. ENERGY SECURITY CONTEXT IN EUROPE

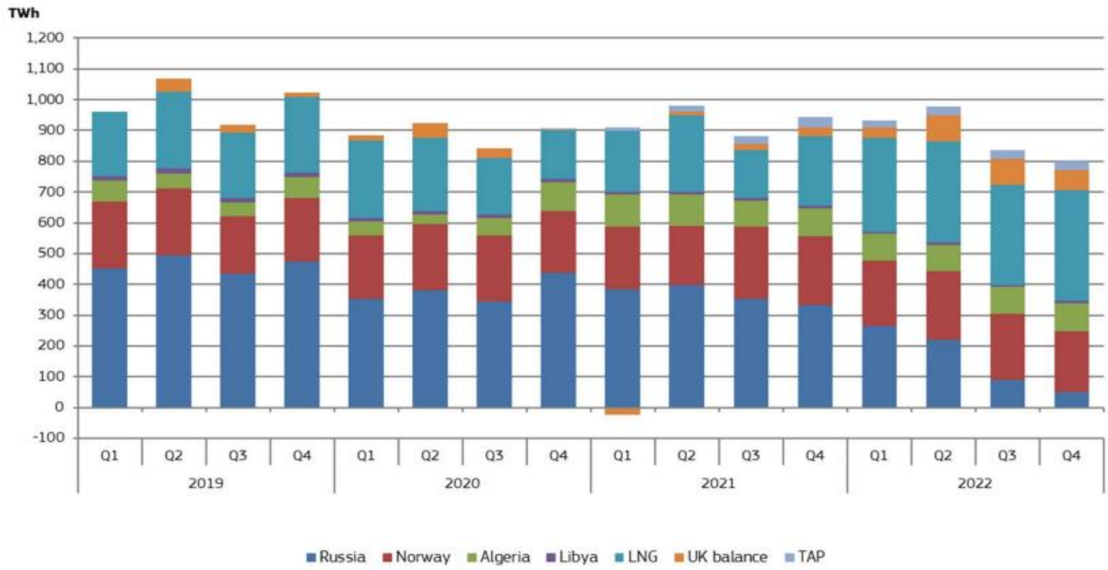
1. 2022 Energy Crisis
2. EU's Energy Crisis Strategy
3. 2023 Europe's Energy Market Rebalancing

1. 2022 Energy Crisis

Russia's invasion of Ukraine on 24 February 2022 triggered a major energy shock, which is the most serious since the Middle Eastern oil crises of 1973-79. Russia's steep gas supply cuts in 2022 drove up natural gas prices to all-time highs both in Asia and Europe, a reconfiguration of global liquefied natural gas (LNG) flows and necessitated a readjustment in gas demand. According to ECB, 1/3 of the Europe's 2022 inflation of 8% was explained by soaring fuel and power costs on the back of 2022 energy crisis. Natural gas is the main feedstock for the production of ammonia, resulting in record price levels for fertilisers and food inflation. According to International Energy Agency (IEA), global gas consumption fell by 1.5% in 2022 – similar to the drop experienced in 2020 following the first wave of Covid-19 lockdowns. European gas consumption fell by 16% (or 55 bcm) y-o-y during the 2022-23 heating season – its steepest drop in absolute terms for any winter season on record.

Gas supply shortages in EU. The reliance of EU states on Russian gas imports (mainly via pipelines) has increased steadily over the last decade: from 30% in 2009 to 40% in 2021. On 1 September 2022 Gazprom announced an indefinite suspension of gas flows through Nord Stream 1, an important pipeline for Europe that delivers gas via the Baltic Sea. Therefore, Russia sharply reduced its pipeline gas deliveries to the EU – by 80% over the course of 2022.

EU imports of natural gas by source



Source: DG Energy

In response, Europe's LNG imports have surged dramatically: while in the past LNG cargoes supplied the marginal quantities, today LNG is acting as baseload, in a similar fashion as Norwegian or North African piped gas. The U.S. - EU LNG corridor has become the most dominant trade route in 2022, which was indispensable to replace some of the loss of Russian pipeline gas. While it allowed the European energy system to adapt on the supply and demand side to the energy shock, this came at a huge cost though – EU's gas import bill soared ten times from 2020 and three times from 2021 levels. High European prices (escalated by the war on Ukraine) have lured LNG tankers away from Asia: nearly 30% of the world's exported LNG went to Europe, up from 20% in 2021. LNG accounted for almost two-thirds of Europe's gas imports through the 2022/23 heating season. New virtual pipelines -made of LNG carriers- are stretching over the two coast of the Atlantic. Due to COVID restrictions, China played a key role in balancing out the global gas market in 2022: the country's LNG imports dropped by an unprecedented 20% (or 22 bcm) y-o-y, allowing Europe to source additional volumes of LNG amidst the steep drop in Russian piped gas.

Soaring gas prices: decline in Gazprom's gas supplies to Europe, war on Ukraine and rush by countries to increase gas reserves to recommended by the EC 80% of capacity before the winter of 2022-23 (see more details below) drove up prices to record levels in 2022. In November 2021 before the aggression, the TTF[4] Gas Futures (the most liquid gas price benchmark in Europe) had been around EUR 40/MWh. Right after the war, the index hit the peak up to EUR 200/MWh in March 2022 and another peak of EUR 230/MWh in September 2022, or ten times above their long-run level.

In mid-October 2022 TTF natural gas price fell by 33% to below EUR 100/MWh, their lowest price level since Nord Stream 1 gradually stopped flowing gas to Europe and summer price rally started. The price decline was explained by 25% European gas demand drop in October on unseasonably mild weather and continued demand destruction in industry. Demand in the residential and commercial sectors fell by almost one-third as the start of the heating season has been effectively delayed in most of the European markets. Demand destruction continued in the most gas- and energy-intensive industries, driving down industrial gas demand by around 40% y-o-y. Strong LNG[5] inflow (up by 60% y-o-y) provided further downward pressure on prices in Europe. Gas demand decline enabled some late storage injections in October 2022. As a result European storages were close to 95% of their capacity by November 2022, standing 5% above their 5-year average storage levels.

European Gas Prices, EUR/MWh

Source: [Dutch TTF Natural Gas Futures | ICE]

4 Title Transfer Facility (TTF)

5 Liquefied natural gas

2. EU's Energy Crisis Strategy

The EU has responded to 2022 energy crisis with a set of measures that combine security of energy supply with climate security, including the acceleration of its gas supply diversification and energy transition policies (so-called "twin transition"). In the Versailles Declaration of 11 March 2022 EU leaders agreed in the European Council to phase out Europe's dependency on energy imports from Russia, historically its largest supplier. On 18 May 2022 the EC presented the REPowerEU Plan[6] accompanied by the new EU External Engagement Strategy[7] that outlined how Europe is going to meet its decarbonisation goals while diversifying away from Russian energy imports.

The REPowerEU Plan is about energy security first and foremost, with environmental issues having to share space with energy security. The REPowerEU Plan does not change the European Green Deal[8] destination – to reduce GHG emissions by 55% by 2030 from 1990 levels – but it changes the composition of how it will be achieved:

1) **Accelerated energy transition**: the REPowerEU Plan increased renewables targets from 40% to 45% and energy efficiency targets from 9% to 13%.
2) **Accelerated gas supply diversification** or reordering the gas supply structure of gas imports without increasing gas purchases (so-called "gas-for-gas policy"). The REPowerEU Plan acknowledges that only renewables cannot entirely eliminate Europe's short-term and mid-term need for natural gas; as well as providing back-up when renewables are not producing electricity, natural gas is vital to Europe's industrial heartland, not to mention heating many of its homes. While the green energy transition is at the heart of the EU's drive for energy independence, moving away from Russian fossil fuels will require replacing some of them with fossil fuels from other international suppliers, considering that the EU's domestic oil and gas production is much diminished: EU imports 90% of its gas consumption, 97% of its oil and 70% of its coal needs. Therefore, to safeguard energy security by diversifying away from Gazprom, the REPowerEU Plan targets to increase Europe's capacity to import LNG. The global LNG market provides the EU with near-term potential to diversify its gas supplies. In IEA's base case – where Russian pipeline supplies to the EU decline by over 55% by 2025 compared to 167 bcm level in 2021 – LNG imports are expected to hover at around 120 bcm/y between 2022 and 2025, or 55% higher than their 2021 levels.

EU's Immediate Response to Energy Shock

The REPowerEU Plan is a medium and long-term response of the EU to the energy shock. After Nord Stream's usage dropped from 40% to 20% of total capacity, the EC hold an extraordinary energy council on 26 July 2022 and outlined an immediate four-pillar EU response: boosting gas storage levels, diversifying energy sources, encouraging demand reduction, and rationing, with the storage recognised being the most important.

1) **Boosting gas storage levels**: In April the European Parliament adopted a new storage regulation that mandates a minimum 80% fill-rate[9] for gas storage by 1 November ahead

[6] EUR-Lex - 52022DC0230 - EN - EUR-Lex (europa.eu)

[7] EUR-Lex - 52022JC0023 - EN - EUR-Lex (europa.eu)

[8] The European Green Deal, approved in 2020, is the EU's strategy for reaching its 2050 climate goal. The EU has pledged to achieve climate neutrality by 2050, delivering on its commitments under the international Paris Agreement.

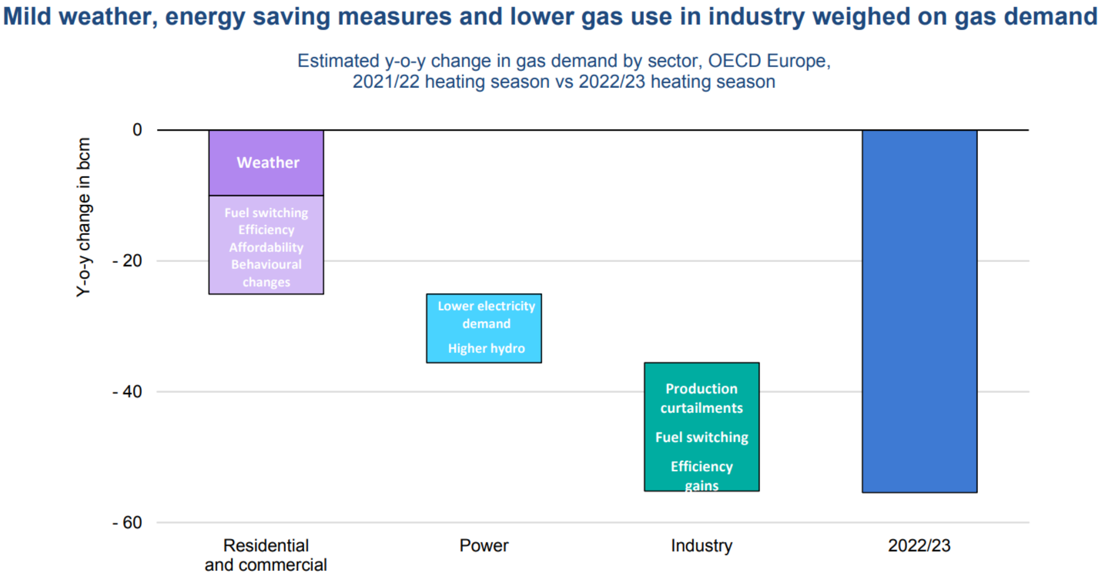
[9] Gas storage minimum needed to get through winter

of the 2022-23 winter, rising to 90% in future years. The strong inflow of LNG, together with lower consumption, enabled a strong storage build up reaching 85% in December 2022, 43% y-o-y increase.

2) **Gas diversification**: Nearly 30% of the world's exported LNG has gone to Europe, up from 20% in 2021. In June 2022 US LNG overtook Russian piped gas in the EU gas imports. Non-Russian pipeline imports also grew by 14 bcm from Norway, Azerbaijan, the UK and North Africa.

3) **Gas demand reduction**: 26 of its 27 EU member states agreed to cut gas consumption by 15% compared with the average of the last five years (Hungary opposed the deal). The agreement went into force on 1 August 2022 and ran until the end of March 2023. As a result, European gas consumption fell by 16% (or 55 bcm) y-o-y during the 2022-23 heating season – its steepest drop in absolute terms for any winter season on record.

4) **Gas rationing** was applied across the EU: intensive energy users had to be switched first, consumers last.



Source: IEA

3. 2023 Europe's Energy Market Rebalancing

Global gas markets moved towards a gradual rebalancing over the 2022-23 heating season. Spot gas prices across European markets dropped by close to 80% between mid-December 2022 and the end of 2Q23 to EUR 36/MWh, albeit remained well above their historic averages. Gas storage sites ended the heating season in June 2023 well above their five-year averages. This was explained by a steep decline in natural gas demand due to favourable weather conditions and timely policy actions that reduced the need for storage withdrawals in Europe over the 2022-23 winter. In the EU storage injections equal to only half of the level seen in summer 2022. According to IEA, this would be enough to reach the EU target of filling storages to 90% by the start of the 2023-24 heating season.

For 2023 the European gas balance is much more fragile, as the demand reduction potential has reached its limits, same for the ability to attract additional non-Russian exports to Europe, at a time when missing Russian volumes will probably reach 120 bcm, instead of about 77 bcm in 2022. With an additional 30-40 bcm of missing Russian gas to offset in 2023 compared to 2022, Europe can be expected to benefit from an extra gas of around 20-25 bcm left in storages thanks to mild weather and available LNG.

Overall, EU’s import situation will be very tensed and fragile for 2023-2024 winter. The key challenge is that EU’s gas supply security ultimately depends on the weather in Europe, China’s and Japan’s LNG demand, and weather or technical outages in the Gulf of Mexico or in other producers. Any slight disruptions in supplies can have major impacts.

A shift away from long-term contracts (and fixed contract price) with Gazprom in 2022 increases the EU's gas market exposure to the global spot market in the coming years from less than 20% to over 50% meaning that gas price volatility in Europe will increase going forward.

After Europe materially reduced Russian gas imports in 2022, the EU countries agreed not to sign new individual agreements and instead potentially seek the signing of a joint contract with alternative suppliers. To achieve this, an alternative mechanism to procure up to 15% of EU’s annual gas demand was established in the form of AggregateEU. This is a matching platform established by the EC and designed to allow smaller buyers of gas to aggregate their demand for gas with the intention of ensuring required supply and creating more attractive contracts to larger market players and obtaining competitive prices. The plan for AggregateEU is to function until the end of 2023, with potential extension, if required. Gas demand requests could cover the period up March 2025. There will be tendering rounds (lasting approximately two weeks each) every 2 months over the next 12-month period. During first tender, which was launched on 25 April 2023, the EU managed to attract bids from 25 international suppliers for 18.7 bcm of gas – surpassing the 11.6 bcm of joint demand that EU companies submitted. The international suppliers have already been matched with the European customers for a total volume of 10.9 bcm. This covers 8.7 bcm of gas via pipeline and 2.2 bcm of LNG. Currently, companies are directly negotiating with suppliers the final terms of the contracts.

ANNEX 3. SUSTAINABILITY OF PUBLIC DEBT FOR MOLDOVA

The war on Ukraine has affected Moldova mainly through a major inflow of refugees, a sharp rise in inflation and disruption of energy supply. Around 700,000 refugees entered the country, with an estimated 100,000 remaining in Moldova and the rest transiting further. This influx of refugees has severely stretched the fragile economy and the country's institutional capacity. After exceptionally strong GDP growth of 13.9% in 2021, rising gas prices and the war on Ukraine have brought GDP contraction of 5.9% in 2022. The growth of government consumption could not compensate for the decline of net exports, private consumption and investment. Current account deficit increased by 1/3 in 2022 due to widened trade deficit and reduced primary income surplus. After the beginning of the war, Moldova lost the access to Ukrainian transportation infrastructure, including the seaports, which used to be important logistic points for Moldovan trade and supply chains. The decreased import of fertilizers and metal from CIS countries (mainly Russia and Ukraine) is negatively impacting agriculture, food processing and construction industries which cumulatively account for over a quarter of GDP. Overall, the export towards Belarus and Russia decreased to below 10% of total Moldovan exports in 2022, however, the exports of some goods, especially fruits, berries and textile products continued to be concentrated on these destinations.

After a continued increase for almost two years to 34.6% in October 2022, inflation is on a declining path and decelerated to 18.1% in April 2023. Therefore, National Bank of Moldova (NBM) started the easing cycle with a few consecutive reductions of the policy rate to 10% in May 2023. Rising costs of living prompted significant fiscal measures to help households and businesses. Expenses on utilities were one-quarter of household incomes on average, even before the soaring gas and other utilities prices. Real earnings have dropped by 10.3% in 2022, not being able to keep pace with rising inflation. The government stepped in with gas subsidies for households and businesses, estimated at around 1.9% of GDP in 2022. In addition, export bans on staple crops such as wheat and maize entered into force in February 2022 to prevent further food price increases. The authorities also expanded social spending by increasing subsidies for farmers in April 2022 to cover household income losses due to energy price rises, and by providing energy price compensation between January and March 2022. On top of that, adding expenses for dealing with refugees have raised fiscal deficit to 3.3% in 2022 and is expected to further widen to 6% of GDP in 2023.

In December 2021 the IMF approved a new 40-month USD 558 million ECF/EFF which focuses on strengthening Moldova's governance and institutional frameworks. Considering the adverse shock on Moldovan economy from the war on Ukraine, in May 2022 the IMF Board approved the augmentation of this programme by increasing the total to USD 796 million. On basis of this IMF support, bilateral creditors have provided additional financing to cover external gap. After the significant outflows from foreign reserves in early 2022, international financial support has replenished the foreign reserves, which increased by one third since the low in April 2022 and stood at USD 4.7 billion in March 2023. In 2022 Moldova received USD 662 million from multilateral and bilateral partners. This year, official creditors will likely cover the financing gap forecasted at USD 800 million. In April, IMF Board completed the third review of the programme and disbursed around USD 96 million.

[REDACTED] In the short term, there are significant downside risks arising from the war in the neighbourhood and energy vulnerability, but in the medium and long term, prospects of EU accession can be a powerful catalyst for structural reforms and stronger economic growth.

The public debt level as share of GDP stood at 33.2% in 2021 (MDL 87.2 billion), up from 28.1% in 2019 prior to the pandemic on the back of the increased fiscal costs due to Covid-19 policy response. External public debt, which is denominated in foreign currency and to a large degree owed to multilateral donors under concessional terms, represented around 57.5% of total public debt at the end of 2022. According to the IMF (December 2022), Moldova remains at low risk of external and overall debt distress. [REDACTED] Risk factors to the debt sustainability include significant shocks to the economic growth, sizeable contingent liabilities and absence of needed structural reforms. Fiscal discipline remains critical to safeguard public debt sustainability.

Moody's reaffirmed Moldova's rating at B3 with Negative Outlook in February 2023. According to Moody's, credit strengths include Moldova's manageable debt burden on the back of sizeable international support and long-term concessional terms, improved resilience of the banking sector enabled by reform progress under the IMF programme and willingness and ability to absorb technical expertise and financial support from the international community to help strengthen the institutional framework. [REDACTED] The prolongation of war on Ukraine increases geopolitical risks and will have an impact on Moldova's economic confidence, trade and investment prospects.

ANNEX 4. FINANCIAL ANALYSIS SUMMARY

[REDACTED]

ANNEX 5. MOLDOVA GAS MARKET ANALYSIS

Consumption

Natural gas is the most used type of fuel in Moldova that accounts for c. 30% of the energy mix. Moldova (excluding Transnistria) consumes c. 1 bcm (2020: 1.1 bcm) of gas annually of which the largest consumers are power plants (2020: 35%) and households (36%) and the balance coming from industrials and municipals (29%). Transnistria region[10] consumes extra 2 bcm of natural gas, the main consumer of which is the Cuciurgan gas power station that in turn sells power to consumers on the Right Bank, a mainland controlled by the Government of Moldova. The Government of Moldova negotiates separate supply contract for the Right Bank only and does not take responsibility for the gas consumed in the Transnistria region. However, Gazprom supplies gas to Transnistria, which is not paid and used by Russia as a tool to economically support the region. The historic debt of Transnistria for consumed gas amounts to USD 7 billion, while Moldova owns USD 770 million of historic debt, including ca USD 300 million penalties and current consumption is paid for in full[11].

Table 1. Moldova's gas consumption breakdown (excluding Transnistria)

million m³	2015	2016	2017	2018	2019	2020	2021
Gas imports	1,007	1,032	1,034	1,130	1,058	1,127	1,206
Gas consumption	928	965	965	1,069	1,016	1,046	1,205
of which:							
households	272	285	303	346	348	373	461
legal entities:	656	680	662	723	668	674	744
state organizations	43	45	45	51	46	42	52
power plants	398	404	384	405	365	371	391
other consumers	215	231	233	267	257	261	301

Source: ANRE

[REDACTEFD]

Gas imports

With no domestic sources of energy and no gas storages, Moldova has been importing natural gas solely from Russia (with transit via Ukraine). In 2020 a new 112 km gas interconnector Ungheni-Chisinau was built and commissioned by Transgas, a Romanian TSO, in Moldova's efforts to diversify sources of gas supply. Since November 2021 the interconnector was fully operational and currently allows Moldova to import 1.5 bcm/year of gas from EU that accounts for c 130% of Moldova's annual demand. [REDACTED].

Following recent progress in the implementation of the third Energy Package, Moldova has no legal restraints to purchase gas from EU hubs. In order to enable gas procurement outside of a long-term contract with Gazprom (see more below) and introduce competition to existing monopoly of Moldovagaz, the Moldovan government authorised Energocom to procure gas from alternative sources on a spot market by running tenders mainly on EU and Ukrainian borders.

10 A formal administrative unit of Moldova established by the Government of Moldova to delineate the territory controlled by the unrecognized Pridnestrovian Moldavian Republic.

11 https://www.4freerussia.org/russian-gas-and-the-financing-of-separatism-in-moldova/

Since February 2022 (with USAID-financed TC in coordination with EBRD) the government have been training Energocom's newly recruited team to become a qualified gas trader, and procure and store strategic gas reserve during 2022. In 2022 Energocom started to penetrate the market and is buying and selling gas based on Moldovan needs using EUR 300 million Existing Facility signed in 2022. The facility allowed Moldova to meet nearly 20% (gas acquisitions started in Q4 2022) of gas demand in 2022 with supplies from EU. This was much less than the government of Moldova had expected, when it had initiated the project with the Bank in February 2022, and was explained by the escalation of gas prices throughout 2022 (please refer to Annex 3).

Gazprom's gas supply contract with Moldova

Gazprom, Russian state controlled energy company, is at the moment the single supplier of natural gas to Moldova via its 50%+1 subsidiary Moldovagaz under a 5-year long-term contract signed on 29 October 2021. The contract was based on a price formula that allowed Moldova in the past to benefit from a relatively lower price than the EU hub price. [REDACTED]

Gazprom's gas transit contract with Ukraine

On 30 December 2019 Gazprom and Naftogaz Ukraine signed agreements covering the transit of Russian gas through Ukraine for the period 2020-24. It provides for 65 bcm to be transited in 2020, and 40 bcm/year in 2021–24 – a total of 225 bcm, with provisions for additional volumes to be shipped if required.

Moldova is reliant on the gas volumes delivered through Ukraine based on this contract. [REDACTED]

Historic debt

One of the main problems of Moldova's gas sector is the accumulated and continuously growing debt of Transnistria for the consumed gas. The estimated present value of Transnistria's debt to Gazprom is approximately USD 7.1 billion (Q3 2021), including all penalties and fines. Since 2009 Transnistria has not paid anything at all to Moldovagaz and kept 100% of the profits. Moldova is currently negotiating with Gazprom the approach to this debt with an intention to find a mechanism/option for Transnistria to pay it, either using Transnistria's shares in Moldovagaz or other option that will exclude any liability of Moldova for this debt. As of October 2021 the portion of the debt attributable to Moldova (excl. Transnistria) totalled USD 709 million (of which USD 433 million is the principal and the remainder were overdue fines).

Infrastructure

Gas sector infrastructure currently includes: high and medium pressure main gas pipelines 1,682 km; medium and low pressure gas distribution pipelines 24,711 km; 3 compression, 1 metering and 79 gas distribution stations. Connection gas pipelines and gas distribution stations situated on the territory of Moldova have the capacity to deliver ca. 9 bcm to the Moldovan consumers, while the annual gas consumption of Moldova has been ca. 1 bcm (excluding 2 bcm consumed in Transnistria).

Transmission

Moldova imports gas for domestic use through two main pipelines connected to Ukraine: Ananiev-Cernauti-Bogorodciani ("ACB") gas pipeline and Sebelinka-Dneproppetrovsk-Krivoi Rog-Ismail ("SDKRI") gas pipeline. ACB is the main import line of Moldova; about 80% of all imported gas comes through this pipeline, whereas SDKRI is used for peak load in the winter.

In 2020 Transgaz, the Romanian TSO, built and commissioned 112km of 1.78 bcm capacity interconnector with Romania and Chisinau (EBRD Project: VMTG - . Pipeline capacity is 4.9 mcm per day, which translates into 1.78 bcm per year, which is more than the 1.2 bcm of the country's annual consumption. However, the winter consumption is ca. 10-11 mcm/day and therefore the daily pipeline's capacity in winter can cover only Chisinau capital. While fully operational from 2021, this pipeline is not actively used at the moment, mainly because the gas imported from Russia through the traditional interconnection route is cheaper. The Iasi – Ungheni – Chisinau ("IUC") at full capacity could potentially replace import of gas (except for the peak consumption conditions) from ACB and SDKRI to the capital, Chisinau. However, the supply of gas to the rest of the country should be addressed as well.

The ACB and SDKRI transmission pipelines are owned by Moldovagaz, through its 100% subsidiaries Moldovatransgaz and Tiraspoltransgaz. The IUC is owned by Transgaz, ultimately owned by the Romanian TSO, and is expected to be mainly used by Energocom.

Distribution

There are 24 gas distribution companies in Moldova of which 12 are owned by Moldovagaz, representing c. 98% of the gas consumption.

Transit

There are four transit gas pipelines in Moldova with transit capacity of ca. 45 bcm, supplying Russian gas to Turkey, Romania, Bulgaria and Greece. Total transit in the past years varied between 18 and 20 bcm. The transit pipelines are owned by Moldovagaz and operated by Moldovatransgaz. Transit payments are collected by Moldovagaz, and the total transit revenue is estimated to be ca. USD 50 million. There are four transit pipelines crossing the territory of the Republic of Moldova:

- North: ACB gas pipeline (transit capacity: 8.7 bcm pa) – mainly used for importing gas for Moldova's consumption.
- South: SDKRI gas pipeline and Razdelnaia-Ismail (RI) (total transit capacity of both: 15.8 bcm pa); Ananiev-Tiraspol-Ismail (ATI) gas pipeline (transit capacity: 20.0 bcm pa). South pipelines used for the transit of gas to Balkans and/or Turkey.

Storage

Moldova has no gas storage facilities, and no plans to construct any significant facilities. It has been relying on Ukraine to allocate a storage capacity to prepare for cold winter seasons.

Regulation and reforms

Regulator. Gas market in Moldova is regulated. The National Agency for Energy sector Regulation ("ANRE") is responsible for tariff approval in natural gas as well as electricity, heating and water sectors. The Law on Natural Gas extends the powers of ANRE to impose financial sanctions on gas companies failing to meet their obligation and sets criteria for licensing gas transportation, distribution, supply and storage.

Reforms/The implementation of the Third Energy Package. Moldova has invested significant efforts in aligning its legal and regulatory framework with the gas acquis. The adoption of the amendments to the Law on Natural Gas in 2022 was an important step towards better resilience of the market. According to Energy Community Secretariat[12], the amendments by themselves, absent proper market opening, will not bring the necessary changes. Moldovan authorities need to ensure the adoption and implementation of secondary legislation, as well as the unbundling and certification of Moldovatransgaz. The Moldovan Government has authorized Energocom, a new state-owned gas trader, to procure gas from alternative sources on the spot market which makes the establishment of a well-functioning gas market a precondition for the success of its security of supply and diversification strategy. The most pressing issues for Moldova are unbundling and certification of Moldovagaz, ensuring long-term security of gas supply and further opening of the gas market.

- **Unbundling [REDACTED] .** VestMoldTransgaz, one of the two national transmission system operators, owned by the Romanian transmission system operator Transgaz and EBRD, is certified under the ownership unbundling model. The other transmission system operator, Moldovatransgaz, which transmits virtually all Moldovan supplies, is not yet certified, for which the Energy Community Secretariat has initiated infringement procedures. In case of the incumbent’s inaction to unbundle, the Law on Natural Gas amended in July 2022 empowers the regulator to withdraw its license, appoint a new transmission system operator for the transmission networks operated by Moldovatransgaz and ask for its certification under the independent system operator model.
- **Gas market liberalisation [REDACTED] .** ANRE approved in March 2022 the entry-exit tariffs for the transmission system. However, the implementation of the Network Codes is still in the nascent phase. Moldovatransgaz offered interconnection point capacity on the regional booking platform on 1 November 2022. Capacities offered towards the EU are up to 36 mcm/day and 12 mcm/ day in reverse flow. The Balancing Network Code has not been implemented in practice so far, despite the ANRE decision of both transmission system operators to have Moldovatransgaz as a balancing entity for the entire balancing zone. Harmonized transmission tariff structures for gas are not in place, as required by the Tariff Network Code, although Moldova established a legal basis therein. As for the backhaul implementation, Moldova is still testing this capacity product and awaiting the regulation of the virtual reverse flow from the fiscal and customs perspective. The lack of implementation is subject to infringement procedures. A draft set of legislative amendments to national legislation is prepared and should be adopted shortly.
- **Wholesale market [REDACTED[.** Moldova’s wholesale gas market is illiquid and foreclosed, dominated by Moldovagaz, which is controlled by Gazprom. Nearly all of Moldova’s demand is supplied via an agreement signed between Moldovagaz and Gazprom in October 2021, extended until September 2026. Nevertheless, other suppliers, such as Energocom, started their operations in the market. Energocom started to penetrate the market and is buying and selling gas based on Moldovan needs, which introduced competition in the Moldovan wholesale market towards Moldovagaz. Energocom has been the main recipient of Moldova's EBRD loan for gas supply and storage operations, amounting to EUR 300 million. A natural gas trading platform in Moldova is established by the Romanian Exchange BRM. REMIT Regulation (EU) 1227/2011 was transposed in July 2022.
- **Retail market** [REDACTED] **.** The Moldovan retail market remains heavily regulated. As per ANRE’s decision of 2019, Moldovagaz is under a public service obligation for the supply of gas to all final consumers, which is valid until the end of 2026. Moreover, in October 2021, ANRE imposed on Moldovagaz a new public service obligation

[12] Moldova - Energy Community Homepage (energy-community.org)

("PSO") of last resort supply for a period of three years. None of the PSOs provides for clear and adequate eligibility criteria. The Government is considering imposing further public service obligations to counteract the effects of the energy price surge. There is, however, a need to revise the entire design of the public service obligations in order to avoid discrimination and unnecessary market disruptions.

- **Interconnectivity and regional integration [REDACTED] .** Moldova has increased its security of natural gas supply with the operationalization of the Ungheni - Chisinau pipeline, which was commissioned in October 2021, and also thanks to the upgrade of the T1 pipe of the Trans-Balkan corridor, which is of regional importance, namely for the transmission system operators of Ukraine and Romania. An interconnection agreement between Moldovatransgaz and the gas transmission system operator of Ukraine was concluded in line with the acquis. Moldova aims at further gas market integration with Romania to allow market penetration from Romanian traders and the usage of the Ungheni - Chisinau pipeline.
- **Security of supply [REDACTED] .** Moldovan primary and secondary legislation, the Regulation on Exceptional Situations on the Natural Gas Market and the Plan of Actions for Exceptional Situations on the Natural Gas Market transposed numerous provisions of Security of Gas Supply Regulation (EU) 2017/1938, including the storage obligations. In addition to these efforts, Moldova has adopted a new set of emergency and preventive plans to reduce consumption in the following winter.
- **CGAP Implementation by Energocom [REDACTED].** Please refer to Annex 8.

End User Tariffs. Moldova has one of the lowest gas end user tariffs for both industrial and household consumers in Europe largely due to lower gas prices secured with Gazprom. The retail gas tariffs are largely indexed to import price, subsidies provided to the first 150 m^3 of household (low pressure users). In late January 2022 the retail tariffs were increased 40% in light of the increase in the import price of gas. Subsequently, in February 2022 the National Commission for Emergency Situations increased the state budget subsidies to both household and industrial users to mitigate a price shock. The subsidies are effective for the period from 1 January 2022 to March 2022.

Table 3. Moldova's gas pricing

US$ / 1000m3	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Av. purchase price of gas	194	162	217	234	149	261	765
Av. end user gas tariff	331	278	263	252	238	264	908

Source: ANRE

ANNEX 6. ENERGY REFORM SECTOR ACTION PLAN

Implementation status as of 30 June 2023

	ACTIONS	DEADLINE	RESPONSIBLE ENTITY	COMMENTS	PROGRESS UPDATE
	1. Improve Corporate Governance at Energocom				
1.1	Implement a Corporate Governance Action Plan that contains – inter alia - some targeted corporate governance actions aimed at improving the corporate governance and transparency at Energocom in line with agreed best international practices.	[REDACTED]	Public Property Agency, Energocom	[REDACTED]	[REDACTED]
1.2	Improve the capacity in Energocom to purchase gas on competitive European markets	[REDACTED]	Energocom, USAID	[REDACTED]	[REDACTED]
1.3	Develop a Climate Corporate Governance (CCG) assessment leading to an initial disclosure that sets out: • The main principles of the Company's adopted CCG Action Plan; • The anticipated impacts of climate change and climate policies on its business; and • An initial assessment of the Company's exposure to climate risks	[REDACTED]	Public Property Agency, Energocom	[REDACTED]	[REDACTED]
	2. Sector reforms implementation				
2.1	**Develop and implement necessary primary and secondary legislation and related measures.** In cooperation with the Energy Community, promote the amendments to the Natural Gas Law necessary for the introduction of the harmonised gas transmission tariff to ensure consistency with the Energy Community acquis, Third Energy Package, network code Regulations, Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency and national legislative and market condition.	[REDACTED]	The Government of the Republic of Moldova (Ministry of Infrastructure and Regional Development in cooperation with and National Energy Sector Regulator (ANRE), Energy Community Secretariat and EBRD)	[REDACTED]	[REDACTED]
2.2	In cooperation with the Energy Community Secretariat, ANRE to modify entry-exit transmission tariff methodology in line with amended Natural Gas Law. The methodology to include a harmonized tariff and an Inter-TSO Compensation (ITC) mechanism.	[REDACTED]	ANRE	[REDACTED]	[REDACTED]
2.3	Introduce the harmonised gas transmission tariff and ITC mechanism	[REDACTED]	ANRE	[REDACTED]	[REDACTED]

2.4	Update gas market rules	[REDACTED]	ANRE, Vestmoldtransgaz and Moldovatransgaz	[REDACTED]	[REDACTED]
2.5	**Strengthen the functional unbundling of the TSOs**. Implementation of unbundling of MoldovaTransGaz under the terms and conditions stipulated in the Law No 108 of 27 May 2016 on Natural Gas	[REDACTED]	The Government of Moldova (Ministry of Infrastructure and Regional Development), ANRE, Public Property Agency	[REDACTED]	[REDACTED]
2.6	**Implementation of Renewable Auctions.** Implement an enabling framework for the development of renewables through the amendments to the Renewable Energy Sources Law and implementation of renewable auctions in the Republic of Moldova.	[REDACTED]	The Government of the Republic of Moldova (Ministry of Infrastructure and Regional Development), ANRE, Public Property Agency	[REDACTED]	[REDACTED]
2.7	Building capacity in the Ministry of Infrastructure and Regional Development and Public Property Agency to deliver on sector reforms	[REDACTED]	The Government of the Republic of Moldova (Ministry of Infrastructure and Regional Development), Public Property Agency, EBRD	[REDACTED]	[REDACTED]

ANNEX 7. GREEN ASSESSMENT SUMMARY

Introduction

The Bank is financing the Energocom for the purchase of natural gas for storage in Ukraine and other European facilities and for emergency gas supplies purchases.

The transaction does not involve any capital investment and its tenor is 2 years. Due to these reasons the project is considered aligned with the objectives of the Paris Agreement. However, more analysis has been done to support the alignment of this project.

Paris Agreement alignment assessment

Assessment of the counterparty

- There is no potential risk of Energocom to finance non-aligned activities. The Company is an energy trader focused solely in electricity and natural gas trade.
- Energocom is undertaking actions to align its activities with the objectives of the Paris Agreement. Notably EBRD is supporting Energocom to improve its Climate Corporate Governance ("CCG") and specifically to:
  - review of Energocom's exposure to key climate risks (transition risks and physical risks)
  - enhance its CCG practices by adopting specific measures that will be defined with the support of a Consultant
  - set corporate level climate targets, and
  - prepare an initial disclosure including: the main principles of the Company's adopted CCG Action Plan, the anticipated impacts of climate change and climate policies on its business and an initial assessment of the Company's exposure to climate risks.

Energocom as a pure trader with no assets, can shift its trades from natural gas to electricity based on Moldova's decarbonisation and therefore is covered by the decarbonisation targets of the Country. Additionally, Energocom is 100% owned by the Government of the Republic of Moldova and therefore is covered by the country's NDC.

A specific assessment of those is presented in the next sub-section together with assessment related to this transaction.

Specific assessments undertaken

This project is aligned with the mitigation goals of the Paris Agreement because of the following below.

- NDC and LTS Review.
  - Energocom activities are aligned with the implementation of Moldova second NDC[13]:

[13] https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Republic%20of%20Moldova%20First/MD_Updated_NDC_final_version_EN.pdf

In its updated NDC (NDC2), Moldova intends to reduce its greenhouse gas emissions by 70% below its 1990 level in 2030, instead of 64-67% as committed in NDC1.
The NDC targets cover the following sectors: energy; industrial processes and product use; agriculture; land use, land-use change and forestry and waste.
The natural gas consumption reduced already by 73.9% from 1990 until 2019[17]. This is due to two factors: (i) a decrease in population by 11.9% and the GDP by 27.7 % between 1990 and 2016 and (ii) the general increase of the energy efficiency leading to a decrease of the energy intensity (CO2eq/GDP) by 4.5% p.a. on average since 2000.
There are no plans of meaningful increase of the natural gas consumption in the coming years as show by the natural gas forecast shared by Energocom, and therefore limited risk of carbon lock-in for new investments in gas.

Moldova's gas consumption forecast, EUR 500m EBRD loan			
	2023F	**2024F**	**2025F**
Gas price, EUR/MWh	38.55	50.69	45.83
EBRD gas volume that can be acquired with EUR 500m, MWh	12,970,169	9,863,878	10,909,884
Moldova's annual gas consumption, million cm	1,268	1,292	1,316
Moldova's annual gas consumption, MWh	13,272,156	13,523,364	13,774,572
Moldova's annual gas bill, EUR m	511,641,614	685,499,321	631,288,635
% of EBRD gas volume in annual Moldova's consumption	98%	73%	79%

The Moldovan energy sector faces several challenges, the main one being the dependence on imports (especially natural gas). Energocom activities and this transaction are not directed to increase the natural gas consumption. Energocom natural gas trading and this facility responds to the need of aforementioned of diversifying from Russian gas. The other sources of gas, mostly LNG, come at a higher price than the Russian gas.
Additionally, Energocom does not have any physical gas assets neither plans to have them in the future.
In consequence, the impact of Energocom on Moldova NDC strategy is limited as the gas supplied will just follow the Country's decarbonisation.

- Energocom activities does not put a risk to the newly proposed Low Emissions Development Strategy (2030)[14]:
  The LEDS specific objectives of mitigating GHG emissions by 2030 by sectors from 1990 are: energy – 81%, transportation – 52%, buildings – 74%, industrial processes – 27%, agriculture – 44%, forestry and land use, change of the designation of land use and forestry (FTSCFTS) – 10%, waste – 14%.
  Moldova (excluding Transnistria) natural gas largest consumers are power plants (2020: 35%) and households (36%). The balance coming from industrials and municipals (29%).
  The emissions reduction for the energy sector were 75% in 2019 (compared to 1990), which are on track to meet the LEDS target.
  The building sector segregated emission are not available, however Moldova is engaged in different activities to improve the energy efficiency of the buildings. The reduction of energy losses in buildings in 2016 was 43.2 ktoe, while in 2018 - 75.9 ktoe.

14 https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/2340916_Republic%20of%20Moldova-BUR3-1-BUR3-EN-211211_web.pdf

  - A law on energy performance of buildings, No. 128/2014, as amended by Law No. 160/2016, establishes that after 30 June 2019, new public buildings must be buildings with almost zero energy consumption. After 30 June 2021, all new buildings must be buildings with almost zero energy consumption.
  - The project is aligned with Moldova current Energy Strategy 2030 (2013)[15]:
    The Moldovan energy sector faces several challenges, the main one being the dependence on imports (especially natural gas). This transaction supports the diversification of the natural gas supply and its affordability. This will support its usage in the country for power and heat generation when compared to other similar, more polluting, sources like coal of fuel oil.

- Moldova continues to develop its decarbonisation strategies and is working with the EU4Climate Programme to develop and implement a long-term low emission development strategy. This will include the establishment of a robust domestic emissions monitoring, reporting and verification system to inform on the progress of the NDC implementation. This strategy will be issued in Q4 2023.

Alignment with the adaptation goals of Paris Agreement

N/A

Exposure to physical climate risks is highly localised, meaning is a function of the specific climatic conditions present in a project location and the risk changes with location and time. In the absence of a specific project location – which is the case for this project – a project-level physical climate risk assessment as foreseen by the BB2 framework cannot be conducted. Thus, this project is not in scope for BB2 (Alignment with Adaptation Goals of the Paris Agreement).

Climate-related financial risk

The sovereign PC score for Government of Moldova is 3, with no further assessment required.

15 http://lex.justice.md/ru/346670/

ANNEX 8. SANCTIONS GENERAL OVERVIEW

[REDACTED]

ANNEX 9. PROJECT IMPLEMENTATION

Procurement classification – *Public sub-sovereign*

[REDACTED].
The Executing Agency for the project will be Energocom which will remain fully responsible for all procurement and implementation activities under the extension to the Existing Facility. Energocom has experience in procuring gas under the Bank's PPR under the Existing Facility, Moldovan Public Procurement Law and on international trading platforms (for example, the EU's gas trading platform, Aggregate EU).

Contracts risk assessment: ***Low***

The project will finance contracts for natural gas. Contracts will be awarded to prequalified suppliers/traders solely based on lowest price. All contracts financed under the project will be based on the industry standard European Federation of Energy Traders (EFET) conditions of contract.

Project implementation arrangements:

Energocom, supported by a gas procurement consultant financed by US AID, has successfully implemented the Existing Facility and will continue to be supported by the same consultant under this extension to the Existing Facility.

Procurement arrangements:

The project is classified as public for procurement purposes. All contracts for natural gas awarded and financed under the Existing Facility have been procured in accordance with the Bank's PPR 2017 and specifically article 3.12 – Commodities. In this regard, following a prequalification exercise undertaken by Energocom in mid-2022 with the assistance of its international consultants and in accordance with the Bank's PPR, seven (7) gas traders were prequalified to participate in the Existing Facility and subsequently entered into an acceptable standard EFET contract (which contain the Bank's prohibited practices and right to audit provisions) with Energocom. In October and November 2022, following a procurement process compliant with the Bank's PPR and the agreed procurement procedures, twelve (12) contracts with a total value of circa EUR 100m were awarded by Energocom under Tranche 1 of the project. During the period from November 2022 to January 2023, following the same procurement process, thirty one (31) contracts with a total value of circa EUR 200m were awarded by Energocom under Tranche 2 of the project. All awarded contracts have been subsequently post-reviewed and no-objected by the Bank. Delivery of all natural gas under all awarded contracts under the Existing Facility has been completed in February 2023.

Following the successful implementation of both tranches of the Existing Facility Energocom has notified the Bank of a significant level of interest in participation in the project from established gas traders which are currently not prequalified under the Existing Facility. For this reason, and with the aim to maximise the level of participation, and therefore competition, following a request from Energocom it is proposed that a new prequalification phase is undertaken for this extension to the Existing Facility [note the 7 (seven) existing prequalified gas traders under the Existing Facility will retain their prequalification status]. The new prequalification process, and the procurement processes for the natural gas to be supplied under the extension to the Existing Facility, will continue to subject to the Bank's PPR (the updated PPR 2022), the agreed procurement procedures, and the Bank's no-objection following a post-review process.

It anticipated that going forward there may be requests from the Moldovan Authorities to additionally allow the proceeds of the Bank's loan to be used to finance the procurement of gas on electronic trading platforms which, depending on the prevailing market conditions, may provide economic alternative mechanisms to procure gas. In this event, the Bank will ensure that the applicable procurement procedures are compliant with the Bank's PPR prior to providing no-objection to the use of any such alternative mechanisms.