United Nations Development Programme

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Terms of reference

Job title: National Consultant in improved subsidies system in energy sector in Moldova

Reference to the project: Strengthening capacities to undertake Environmental Fiscal Reform to meet national and global environmental priorities

Contract type: Individual Contract (IC)

Expected workload: 45 days

Starting date: March 11, 2013

1. Background

The economic cost of energy subsidies can represent a significant burden on a country's finances, can weaken its growth potential and encourage wasteful energy consumption. Governments support the production or consumption of energy in many ways: from providing grants or low-interest loans to tax exemptions and price controls that lower the cost of energy production, or raise the price received by energy producers or lower the price paid by energy consumers.

The removal of environmentally-harmful subsidies is key in moving towards a greener path of economic development. This has been recognized by the OECD countries, including in the G20 context. In 2009, the G-20 leaders committed to rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption. This requires that governments undertake systematic efforts to identify and measure energy subsidies and their economic, social and environmental impacts.

Existing analysis shows that OECD countries subsidize energy production mostly, while in non-OECD countries, most energy subsidies go to consumers - usually through price controls that hold end-user prices below the full cost of supply. This could be the case of Moldova as well.

Moldova is poorly endowed with energy resources and it imports almost all of its primary energy (e.g. from Russia, Ukraine, Romania). Despite the fact that over the transition period Moldova has rationalized energy prices and largely cut blanket subsidies and cross subsidies, there is some evidence that energy subsidies, including consumer subsidies to heat and electricity are still significant in the country. Some studies (e.g. World Bank) indicate that a large part of these existing subsidies actually accrue to the non-poor in the country. At the same time, there is some evidence of a new subsidy growth for energy service providers over the past several years. Rationalizing further such subsidies can encourage the development of clean energy in Moldova.

The OECD and UNDP Moldova are launching work on identifying and measuring energy subsidies in Moldova with the objective to assist the Moldovan government to better understand the nature of their policies supporting fossil fuel and stimulate a debate on possible reforms of such subsidies in the country. This will be done by reviewing and estimating the volume and coverage of such subsidies and identifying their environmental impacts particularly in terms of greenhouse gas emission reductions but also their impact on the public budget.

While the Ministry of Environment will act as the main counterpart, the project needs the concerted efforts of all key stakeholders involved in managing and subsidizing the energy sector in Moldova.

2. Scope of work and expected outputs

UNDP Moldova under the "Environmental Fiscal Reform Project" funded by the Global Environment Facility intends to hire a local consultant to support the project on Energy subsidies and climate change in Moldova. More specifically the focus will be on *Production and consumption subsidies in the coal, oil, gas, electricity and heat sectors in Moldova.*

The objective of the assignment of the local consultant (the Consultant) is to identify and quantify (to the extent possible) major support schemes with regard to the production and consumption of coal, oil, gas, electricity and heat in Moldova.

In this assignment, the local consultant will be supported by a team of international consultants who will work under the guidance and supervision of and with the direct involvement of an OECD Project Manager. The local consultant will have relevant experience and practical expertise in energy sector operation and regulation and public finance (public expenditure programmes, taxation and customs regimes), with a focus on the energy sector.

The main responsibility of the Consultant will be to prepare a short overview of the relevant sectors to be analyzed as part of the project and to conduct an initial identification of subsidy schemes which may have a negative impact on the environment or, environmentally-harmful subsidy (EHS) schemes in these sectors, using existing (OECD) methodologies and tools for EHS identification.

The Consultant will also assist the Project Team in identifying and organizing meetings with relevant stakeholders.

3. Tasks and workload

Tasks and Activities

1.1. The Consultant will assist the Project Team in the identification, description and quantification (where possible) of major subsidy schemes in the oil, coal, gas, electricity and heat sectors.

1.2. The Consultant will identify major support schemes for **producers and consumers** in the oil, coal, gas, electricity and heat sectors. These will aim to particularly cover:

1.2.1. Direct transfer of funds from the budget to consumers and producers (e.g. support of energy purchases by low-income households, government expenditure on research, development and demonstration projects);

1.2.2. Tax expenditure (measured as tax revenue forgone) (also referred to as preferential tax treatment, tax concessions, tax relief, tax breaks).

1.2.3. Other government revenue forgone;

Tax expenditure with respect to fossil fuels can be categorized into three broad groups: 1) those related to final consumption of fossil fuels – by households and generally provided through lower rates, exemptions and rebates with respect to two main types of consumption taxes (VAT and excise taxes); 2) those related to fossil fuels as inputs to production (exemptions from excise taxes on fuels for certain types of businesses or households and reductions in rates of energy taxes that are related to the energy intensity of firms' production) and 3) those relating to the production of fossil fuels, including extraction, refining and transport (tax expenditure here are provided through the corporate income tax system and through accelerated depreciation allowances for capital, investment tax credits, preferential capital gains treatment for particular fields, special treatment of income from state-owned enterprises, or in resource-rent taxes and other fiscal instruments that apply to resource extraction). In this particular case, the Consultant will focus on the first and second group.

1.2.4. Transfer of risk to government (e.g. government guarantees) – see examples in Annex 1;

1.2.5. Induced transfers (e.g. regulated prices, import tariff or export subsidy) – see examples in Annex 1.

In carrying out this activity the Consultant will use as a starting point the OECD Matrix of support schemes and the Global Subsidies Institute (GSI) list of subsidies (see Appendices 1 and 2). The initial list of support schemes should indicate at least the titles of the major support schemes for consumption and production in the oil, coal, gas, electricity and heat sectors and their brief description (see OECD inventory which will be provided by the OECD Project Manager).[1]

1.3. If and as necessary, the Consultant will carry out additional in-depth interviews with relevant stakeholders (representatives of relevant ministries, energy service providers).

1.4. The Consultant will provide a definition of "subsidies" and tax expenditure and the tax benchmark, as specified in the national legislation as well as describe the methodology to estimate tax expenditure. The consultant will collect information on relevant tax exemptions, in terms of published rates and volume of fuel and users of fuels that were exempted.

1.5. The consultant will also collect data on domestic prices of fossil fuels, electricity and heat prices in the country by region over a period of three years (last three available years).

1.6. The Consultant will review the existing energy sector related policy documents and programs in order to identify visions and plans of the central authorities related to any of the existing subsidy schemes or any potential subsidy scheme to be used in the future;

1.7. The Consultant will undertake a desk review of existing analysis related to the energy taxation, subsidies and sector development elaborated by local and international institutions (i.e. World Bank, EBRD, Ministry of Economy) and civil society experts.

1.8. The Consultant will elaborate a report containing a list of subsidy schemes provided to producers and consumers in the oil, coal, gas, electricity and heat sectors, covering the issues as suggested in the table (Annex 2). In preparing this information, the Consultant should follow the OECD subsidy classification matrix for oil, coal, gas, electricity and heat sectors, as given in Annex 1. The description of the subsidy schemes will include the following: the policy objective or purpose of the subsidy; background on, the legislation or the authority under which the subsidy is granted; the administrative form of the subsidy (that is, the mechanism through which it is provided e.g., grant, loan, tax concession); to whom and how the subsidy is provided (target beneficiary, consumer or producer); the per-unit subsidy, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy; the point of impact of the subsidy - input, output, profit or income – (subsidies are always conditional on something e.g. level of production,

[1] OECD (2011), Inventory of estimated budgetary support and tax expenditures for fossil fuels, OECD, Paris.

use of particular inputs, introduction of a particular technology, etc.); the duration of the subsidy.

1.9. The Consultant will prepare basic information on each sector: oil, coal, gas, electricity and heat. This will include among others, a short description of the country's energy resources and market structure, the legal and institutional framework for managing the sector, strategic objectives for the sector development, ownership of resources, corporate structure of the different sub-sectors of the energy industry, role of oil, gas and coal imports in the country's economy and their volumes. Short description of the energy generating, transfer and distribution infrastructure and institutional set-up, electricity and heat generated in 2009-2011. Public investment schemes that exist to support the sector (duration, main features, beneficiaries). Other relevant information that the Consultant may consider important for the analysis. To the extent possible, the Consultant will provide the Project Team with all original documents in English.

1.10. The Consultant, under the guidance of the International Consultant, will determine the economic, fiscal and environmental effects of applying the maximum rates of VAT, excise taxes, custom duties and other fiscal instruments on different energy products assuming different economic growth scenarios, different taxation shift scenarios, as well as other relevant variables.

1.11. In cooperation with International Consultant will identify which potential options are feasible and most desirable for implementation, focusing on issues such as effective and maximized contribution to targets and goals of UNFCCC, the development of new markets and cleaner technologies in the energy sector. This will be done taking into account relevant experience in the EU area.

In order to carry out this assignment the Consultant will use public access documents, collect and review various sources of information and data, including different codes (Tax Code, Budget Code), laws (the last three annual Budget Laws (including targeted budget programmes at national and/or local levels), sector-specific laws where these exist (e.g. Law on Energy), relevant environmental regulations for the energy sector, reports on budget execution by Parliament and by different government agencies and bodies, tax expenditure reports (that cover, for example, exemptions for corporate and personal income taxes, VAT, excise taxes), official subsidy monitoring reports of the Accounting Chamber (if these exist), statistical yearbooks, academic papers, media reports, analytical reports produced in both English and Romanian. The Consultant will also need to screen various regulations for setting electricity and heat tariffs.

4. Deliverables and timeframe

	Deliverable	Deadline
1	Report containing a list of subsidy schemes provided to producers and consumers in the oil, coal, gas, electricity and heat sectors, covering the issues as suggested in Annex 2 (to the extent that this information is available). The description of subsidy schemes will be done according to requirements set in Task 1.8: see "Tasks and workload" section	March 21, 2013
2	Report containing description of the economic, fiscal and environmental effects of applying the maximum rates of VAT, excise taxes, custom duties and other fiscal instruments on different energy products	March 29, 2013
3	Report containing description of the potential options that are feasible and most desirable for implementation, focusing on contribution to targets and goals of FCCC, the development of new markets and cleaner technologies in the energy sector	April 15, 2013
4	Report on selected reform proposals with a detailed description of the medium and long term impacts (CO2 reduction, economic and fiscal effects)	April 30, 2013

5	Guidance for next steps which have to be taken by each institution for a proper implementation of the accepted reform proposals	May 8, 2013
6	Participation at round table meeting(s) with interested stakeholders	May, and June, 2013

The timeframe for the assignment of the National Consultant is planned tentatively through March – June 2013. The consultancy should involve up to 45 working days.

5. Management Arrangements

Organizational Setting: The consultant will work under the guidance of the International expert who is working under the surveillance and direct involvement of an OECD Project Manager. The consultant will report to the UNDP EFR Project Manager.

Contributions: The EFR Project office will put at the contractor's disposal all available materials and necessary information for the achievement of tasks and will facilitate meetings, as needed.

6. Requirements for experience and qualification

Education

University degree in public finance, economics, environment or engineering/energy.

Experience

- At least 5 years substantive professional experience in areas related to the energy sector/ analysis of energy sector development in Moldova, with specific experience related to taxation and subsidization being an advantage;
- Be familiar with the public finance principles in Moldova;
- Experience in policy analysis and drafting strategic documents;
- Experience in sector related policy development;
- Experience in working and collaborating with state institutions is a strong asset.

Language

- Excellent English/Romanian writing skills are essential. Knowledge of Russian would be an asset.

Competencies:

Technical work

- Thorough understanding of energy sector institutional framework, energy products price setting mechanisms, energy regulation, energy sector subsidies, energy products taxation.
- Demonstrated knowledge and expertise in energy sector development, energy market, mechanisms and instruments used for implementation of cleaner technologies.
- Experience in drafting strategic documents and legal framework proposals.

Partnerships

- Maturity and confidence in dealing with senior and high-ranking members of international, regional and national institutions.
- Displays cultural, gender, religion, race, nationality and age sensitivity and adaptability.
- Good oral communication skills and conflict resolution competency to manage inter-group dynamics and mediate conflicting interests of varied actors.
- Excellent written communication skills, with analytic capacity and ability to synthesize project outputs and relevant findings for the preparation of analytical documents.

Results

- Promotes the vision, mission, and strategic goals of UNDP.
- Builds strong relationships with clients, focuses on impact and result for the client and responds positively to feedback.

ANNEX 1. OECD MATRIX OF PUBLIC SUPPORT MEASURES WITH EXAMPLES

		Statutory or Formal Incidence (to whom and what a transfer is first given)								
		Production							Direct consumption	
		Output returns	Enterprise income	Cost of intermediate inputs	Costs of Production Factors					
					Labour	Land	Capital	Knowledge	Unit cost of consumption	Household or enterprise income
Transfer Mechanism (how a transfer is created)	Direct transfer of funds	Output bounty or defficiency payment	Operating grant	Input-price subsidy	Wage subsidy	Capital grant linked to acquisition of land	Capital grant linked to capital	Government R&D	Unit subsidy	Government-subsidized life-line electricity rate
	Tax revenue foregone	Production tax credit	Reduced rate of income tax	Reduction in excise tax on input	Reduction in social charges (payroll taxes)	Property-tax reduction or exemption	Investment tax credit	Tax credit for private R&D	VAT or excise-tax concession on fuel	Tax deduction related to energy purchases that exceed given share of income
	Other government revenue foregone	Reduced resource-rent tax		Under-pricing of a good, government service or access to a natural resource		Under-pricing of access to government land; reduced royalty payment		Government transfer of intellectual property right	Under-pricing of access to a natural resource harvested by final consumer	
	Transfer of risk to government	Government buffer stock	Third-party liability limit for producers	Provision of security (e.g., military protection of supply lines)	Assumption of occupational health and accident liabilities	Credit guarantee linked to acquisition of land	Credit guarantee linked to capital		Price-triggered subsidy	Means-tested cold-weather grant
	Induced transfers	Import tariff or export subsidy	Monopoly concession	Monopsony concession; export restriction	Wage control	Land-use control	Credit control (sector-specific)	Deviations from standard IPR rules	Regulated price; cross subsidy	Mandated life-line electricity rate

Annex 2. GSI ILLUSTRATIVE LIST OF SUBSIDY TYPES

Direct transfer or potential direct transfer of funds	Government revenue foregone
• Direct payments linked to production volumes or sales • Deficiency payments (the difference between target price and actual price) • Grants for the acquisition of capital or land • Subsidies to intermediate inputs • Wage subsidies to assist individuals in preparing for and maintaining employment (e.g., training) • Government loans: provided at below-market rates, low collateral requirements, lengthy repayment periods or deferred repayments* • Government spending on research and development • Guarantees for loans, security or credit* • Government-provided insurance or indemnification* • Assumption of occupational health and accident liabilities • Assumption of liabilities for closure and post-closure risks (e.g., site cleanup) • Caps on commercial liability • Government use of tax-free bonds to fund private investments • Government expenditure on creating and maintaining stockpiles	• Tax expenditure: reduced tax rates, tax credits, exemptions or deferrals (e.g., on income tax, VAT, excise tax, property tax) • Accelerated depreciation allowances • Reduced royalty payments • Reduced resource rents

Government-provided or government-purchased goods or services	Income or price support, or relief from normal costs or procedures
• Underpricing of government-provided goods or services • Government procurement at above-market rates • Government-provided infrastructure specific to the sector (e.g., private roads, storage facilities) • Access to government-owned natural resources or land • Government transfer of intellectual property rights	• Prices set at below-market rates for consumers (including where there is no financial contribution by government) • Above-market rate prices for producers via government regulations or import barriers (e.g., tariffs) • Mandated feed-in tariffs • Consumption mandates • Export taxes or restrictions • Relief from costs enterprises normally bear in the normal course of business (e.g., labour, environmental, health and safety) • Exemption from government procedures normally followed by enterprises

* Government-provided loans, loan guarantees and investment insurance are referred to as "export credits" when granted for exports or foreign investment.

Source: Defining Fossil-Fuel Subsidies for the G-20: Which Approach is the Best? March 2010. Policy Brief. The Global Subsidy Initiative.