

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR MOLDOVA

2010 - 2013

As approved by the Board of Directors at its meeting on 14 December 2010

TABLE OF CONTENTS

| | |
|--|-----------|
| LIST OF ABBREVIATIONS | 4 |
| EXECUTIVE SUMMARY | 7 |
| 1. THE BANK'S OPERATIONS TO DATE AND CURRENT PORTFOLIO..... | 9 |
| 1.1 OVERVIEW OF ACTIVITIES TO DATE..... | 9 |
| 1.2 IMPLEMENTATION OF THE PREVIOUS COUNTRY STRATEGY ... | 9 |
| 1.3 TRANSITION IMPACT OF THE BANK'S PORTFOLIO AND LESSONS LEARNED | 12 |
| 1.3.1 FINANCIAL INSTITUTIONS | 13 |
| 1.3.2 INDUSTRY, COMMERCE, AGRICULTURE | 13 |
| 1.3.3 INFRASTRUCTURE AND ENERGY | 14 |
| 1.4 PORTFOLIO RATIO | 14 |
| 2. OPERATIONAL ENVIRONMENT | 14 |
| 2.1 THE GENERAL REFORM ENVIRONMENT | 14 |
| 2.1.1 POLITICAL DEVELOPMENTS | 14 |
| 2.1.2 BUSINESS ENVIRONMENT | 15 |
| 2.1.3 PHYSICAL ENVIRONMENT..... | 16 |
| 2.1.4 SOCIAL AND GENDER ISSUES..... | 16 |
| 2.1.5 LEGAL REFORM..... | 17 |
| 2.2 PROGRESS IN TRANSITION AND THE ECONOMY'S RESPONSE.. | 17 |
| 2.2.1 MACROECONOMIC CONDITIONS FOR BANK'S OPERATIONS | 17 |
| 2.2.2 TRANSITION SUCCESS AND TRANSITION CHALLENGES | 18 |
| 2.3 ACCESS TO CAPITAL AND INVESTMENT REQUIREMENTS | 19 |
| 3. STRATEGIC ORIENTATIONS | 20 |
| 3.1 BANK'S PRIORITIES FOR THE STRATEGY PERIOD | 20 |
| 3.2 SECTORAL CHALLENGES AND BANK OBJECTIVES | 20 |
| 3.2.1 INFRASTRUCTURE | 20 |
| 3.2.2 ENERGY | 21 |
| 3.2.3 INDUSTRY, COMMERCE AND AGRICULTURE..... | 21 |
| 3.2.4 FINANCIAL INSTITUTIONS..... | 22 |
| 3.3 POLICY DIALOGUE | 22 |
| 3.4 ENVIRONMENTAL AND SOCIAL IMPACT..... | 23 |
| 4. COOPERATION WITH THE EUROPEAN UNION | 24 |
| 5. OTHER IFIS AND MULTILATERAL DONORS..... | 25 |
| 5.1 EUROPEAN INVESTMENT BANK (EIB)..... | 26 |
| 5.2 WORLD BANK GROUP | 26 |
| 5.3 INTERNATIONAL MONETARY FUND (IMF)..... | 27 |
| LIST OF ANNEXES..... | 29 |
| ANNEX 1: POLITICAL ASSESSMENT | 30 |
| ANNEX 2: ASSESSMENT OF TRANSITION CHALLENGES | 34 |
| ANNEX 3: ENVIRONMENTAL AND SOCIAL DEVELOPMENT | 40 |
| ANNEX 4: COMMERCIAL LAWS OF MOLDOVA | 45 |
| ANNEX 5: LIST OF SIGNED PROJECTS | 54 |
| ANNEX 6: PROJECT PIPELINE..... | 56 |
| ANNEX 7: TECHNICAL ASSISTANCE BY DONOR AND SECTOR | 57 |
| ANNEX 8: LIST OF TECHNICAL ASSISTANCE PROJECTS | 58 |
| ANNEX 9: SELECTED ECONOMIC INDICATORS | 61 |
| ANNEX 10: TAM/ BAS ACTIVITIES IN MOLDOVA..... | 62 |

LIST OF ABBREVIATIONS

| | |
|---------|---|
| AEI | Alliance for European Integration |
| ANRCETI | National Agency for Regulation in Electronic Communications and Informatics |
| ANRE | National Energy Regulatory Agency |
| ATP | Autonomous Trade Preferences |
| BAS | Business Advisory Service |
| BEEPS | Business Environment and Enterprise Performance Survey |
| CPI | Consumer Price Inflation |
| CDM | Clean Development Mechanism |
| CSF | Civil Society Fund |
| DLF | Direct Lending Facility |
| DWCP | Decent Work Country Programme |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| EIB | European Investment Bank |
| ENP | European Neighbourhood Policy |
| ETCI | Early Transition Countries Initiative |
| EU | European Union |
| FDI | Foreign Direct Investments |
| FI | Financial Institutions |
| GDP | Gross Domestic Product |
| GEF | Global Environmental Facility |
| ICT | Information Communication Technologies |
| IDA | International Development Association |
| IAIS | International Association of Insurance Supervisors |
| IFC | International Finance Corporation |
| IFI | International Financial Institution |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| IOSCO | International Organisation of Securities Commissions |
| JSC | Joint Stock Company |
| MCC | Millennium Challenge Corporation |
| MCFF | Medium-Sized Co-Financing Facility |
| MEI | Municipal and Environmental Infrastructure |
| MIGA | Multilateral Investment Guarantee Agency |
| MSE | Micro and Small Enterprises |
| MSME | Micro, Small and Medium Enterprises |
| MT | MoldTelecom |
| NAPC | National Agency for the Protection of Competition |
| NCFM | National Commission for Financial Markets |
| NIF | Neighbourhood Investment Facility |
| NBM | National Bank of Moldova |
| OECD | Organisation for Economic Cooperation and Development |
| OHS | Occupational Health and Safety |
| OSCE | Organisation for Security and Cooperation in Europe |
| PPL | Public Procurement Law |
| PPP | Public Private Partnership |
| RO | Resident Office |

| | |
|----------|---|
| SCM | Superior Council of Magistracy |
| SIDA | Swedish International Development Cooperation Agency |
| SME | Small and Medium Enterprise |
| SML | Law on the Securities Market |
| TAM | Turn Around Management |
| TC | Technical Cooperation |
| TCX | Currency Exchange Fund |
| TFP | Trade Facilitation Programme |
| TIMS | Transition Impact Monitoring System |
| UCTE | Union for the Co-ordination of Electricity Transmission |
| UNCITRAL | United Nations Commission on International Trade Law |
| UNECE | United Nations Economic Commission for Europe |
| UNIFEM | United Nations Development Fund for Women |
| WTO | World Trade Organisation |

CURRENCY CONVERSIONS

| | |
|-----|-------------------------------|
| EUR | Euro, European Union Currency |
| USD | United States Dollar |
| MDL | Lei, Moldovan Currency |
| SDR | Special Drawing Rights |

Exchange Rates as of 1 September 2010

| | |
|-------|-------------|
| 1 EUR | 15.4626 MDL |
| 1 USD | 12.1714 MDL |
| 1 SDR | 18.3888 MDL |

EXECUTIVE SUMMARY

Moldova is committed to and is making progress in applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank, although application of these principles in the previous Strategy period was somewhat uneven.

Moldova has held three parliamentary elections in the past two years. The scheduled election of April 2009 and early election of July 2009 met many of Moldova's democratic commitments, although shortcomings were noted in the areas of administrative interference, procedural weaknesses and media bias. Legal reforms and practical measures adopted after the July 2009 election improved the electoral framework and the second early election, held on 28 November 2010, was deemed by international observers to have met most OSCE and Council of Europe commitments. Four parties crossed the four per cent threshold to enter parliament.

Following a decade of economic growth, the Moldovan economy was seriously affected by the global economic crisis and contracted by 6.5 per cent in 2009. While the financial sector has remained stable, domestic credit declined in nominal terms. The policy response has mostly been based on monetary policy, including refinancing rate cuts to a historic low of 5 per cent in January 2010 and lower reserve requirements for commercial banks. The National Bank of Moldova also used its international reserves to avoid depreciation of the Moldovan Leu in 2009. A recovery of the Moldovan economy has started in the first half of 2010.

In late 2009 the new government adopted a comprehensive Economic Stabilisation and Recovery Programme. The government reforms have received broad support from donors and IFIs. Total pledged commitments at the Donor Consultative Group Meeting in Brussels in March 2010 reached EUR 1.94 billion, including an IMF Agreement of SDR 369.6 million (US\$ 574 million) approved in January 2010. In July 2010, an IMF review concluded that the lending programme is on track and that current policies will continue stabilisation efforts and support the recovery.

Challenges

Moldova made progress in implementation of reforms in recent years, especially in areas of trade liberalisation and tariff reform. Remaining transition challenges include:

- Infrastructure and energy continue to suffer from poor financial and operational performance, including significant cost inefficiencies, high cross-border costs and poor state of internal transportation and communication infrastructure. The power sector underwent significant reforms, including unbundling and privatisation of distribution assets. Private sector participation is also significant in gas distribution and deregulated urban transport. Recent reform of tariff regulation is encouraging, but a track-record of depoliticised tariff setting is to be established and inter-company energy sector debts are still to be restructured.
- The corporate sector remains underdeveloped and inefficient. Only a few enterprises are able to compete on international markets, including in the agricultural sector dominated by wine production. Most agro-processors are

- The banking system has grown in recent years, but remains unsophisticated by regional standards, and further improvements in transparency and corporate governance are needed. Limited exposure to international financial markets, improvements in banking supervision, and greater focus on risk management have helped to preserve stability of the financial sector throughout the crisis. However, the loan portfolio quality has deteriorated sharply, lending capacity became restricted, and financial products range remains limited, hindering financing of real economy.

Strategic Directions

During the post-crisis economic recovery the Bank will focus on addressing the key identified transition challenges in line with the government's reform programme and in close coordination with bilateral donors and other IFIs, in particular the EIB under the new Memorandum of Understanding currently being finalised:

- ***Infrastructure and Energy:*** The Bank will support rehabilitation and modernisation of infrastructure, both transport and municipal services, with particular emphasis on procurement practices, implementation of agreed reform milestones, and greater role of the private sector. In energy, the Bank will focus on energy efficiency, rehabilitation of existing assets, and further investments in the sector. Infrastructure and energy projects are expected to be co-financed by other IFIs, particularly the EIB, and will require significant technical assistance and investment grants to ensure affordability and successful implementation. Policy dialogue will be undertaken jointly with other IFIs.
- ***Industry, Commerce and Agribusiness:*** The Bank will focus on introduction of innovative, scalable products and processes, entry and expansion of export-oriented enterprises, and restructuring and growth of existing companies, including support for energy efficiency investments. The Bank will undertake intensive policy dialogue on the business climate with the authorities and the business community, closely coordinated with other IFIs, and continue providing TAM/BAS assistance.
- ***Financial Sector:*** Main priorities in the financial sector will include i) support for financial sector development by expanding the range and reach of financial products, and ii) improvements in transparency and corporate governance. The Bank will aim to provide debt and equity financing to both existing and new clients, focusing on introduction of new financial products, supporting local currency lending, and strengthening operational management.

1. THE BANK'S OPERATIONS TO DATE AND CURRENT PORTFOLIO

1.1 Overview of Activities to Date

Since 1994 until the end of August 2010, the Bank has signed 81 projects in Moldova accounting for a net cumulative business volume of EUR 436 million (see Annex 5 with the list of signed projects). The cumulative business volume was evenly split between Financial Institutions (37 per cent), Industry, Commerce and Agribusiness (29 per cent), and Infrastructure and Energy (27 and 8 per cent respectively).

Table 1: Bank's Portfolio in Moldova as of end August 2010

| SECTOR | NET CUMULATIVE BUSINESS VOLUME | | | | CURRENT PORTFOLIO STOCK | | | | |
|--|--------------------------------|--------------------|--------------|-----------------|-------------------------|--------------|----------------|------------------|-----------------------|
| | Number of projects | Total Project Cost | EBRD signed | EBRD % of total | Number of projects | Portfolio | % of Portfolio | Operating assets | % of Operating Assets |
| <i>Amount in EUR million</i> | | | | | | | | | |
| Financial Institutions | 40 | 229.1 | 160.8 | 37% | 23 | 94.1 | 36% | 65.5 | 44% |
| Bank Equity | 5 | 29.4 | 12.1 | 3% | 4 | 4.0 | 2% | 4.0 | 3% |
| Bank Lending | 20 | 148.4 | 126.6 | 29% | 12 | 79.2 | 31% | 55.4 | 38% |
| Small Business Finance | 14 | 49.9 | 20.7 | 5% | 7 | 10.9 | 4% | 6.1 | 4% |
| Insurance & Financial Services | 1 | 1.4 | 1.4 | 0% | 0 | 0.0 | 0% | 0.0 | 0% |
| Industry, Commerce & Agribusiness | 27 | 226.7 | 124.5 | 29% | 14 | 75.9 | 29% | 57.0 | 39% |
| Agribusiness | 13 | 128.6 | 80.7 | 19% | 4 | 36.8 | 14% | 32.1 | 22% |
| Equity Funds | 4 | 13.0 | 7.2 | 2% | 3 | 6.7 | 3% | 0.6 | 0% |
| Manufacturing & Services | 2 | 2.8 | 2.4 | 1% | 1 | 2.0 | 1% | 0.0 | 0% |
| Property and Tourism | 4 | 74.7 | 26.7 | 6% | 4 | 25.0 | 10% | 18.9 | 13% |
| Telecom, Informatics, Media | 4 | 7.6 | 7.6 | 2% | 2 | 5.4 | 2% | 5.4 | 4% |
| Infrastructure | 11 | 260.2 | 116.9 | 27% | 8 | 68.4 | 26% | 12.9 | 9% |
| Municipal & Environmental Infrastructure | 5 | 100.9 | 43.1 | 10% | 4 | 24.6 | 10% | 5.6 | 4% |
| Transport | 6 | 159.3 | 73.8 | 17% | 4 | 43.8 | 17% | 7.3 | 5% |
| Energy | 3 | 68.8 | 33.4 | 8% | 3 | 20.0 | 8% | 12.1 | 8% |
| TOTAL | 81 | 784.8 | 435.7 | 100% | 48 | 258.3 | 100% | 147.5 | 100% |

At the end of August 2010, the portfolio consisted of 48 operations for a total of EUR 258 million. The portfolio has similar sector composition as the net cumulative business volume. Regional operations in the portfolio amount to EUR 18.6 million, out of which EUR 5 million are operating assets.

Operating assets of EUR 147.5 million are dominated by the private sector operations in Financial Institutions, accounting for 44 per cent of the total, and Industry, Commerce and Agriculture, accounting for 39 per cent of the total. Infrastructure and Energy account for 9 per cent and 8 per cent of operating assets, respectively, as recently signed large transport and municipal and environmental infrastructure projects are expected to start disbursing only during the next 12 months.

The current EBRD portfolio in Moldova has a weighted risk rating of 6.6, compared to 7.1 at the time of the last strategy review, and 6.1 for the Bank as a whole.

1.2 Implementation of the Previous Country Strategy

The Bank has been successful in meeting most of its strategic priorities during the previous strategy period, including broadening of its support for the financial sector, financing private enterprises with strategic investors, and resuming infrastructure lending. A significant increase in Bank's activity was assisted by focused policy dialogue in key areas, as well as close cooperation with donors and other IFIs, including donor financed technical assistance for project preparation and

implementation, investment grants to address affordability issues, and legal and regulatory technical assistance. ETC Initiative was instrumental in enabling the Bank to deliver a large number of small projects with overall sizeable transition impact. The Bank has undertaken several crisis response operations, including provision of local currency financing to the financial sector and enterprise financing under the mid-size corporate support facility. The crisis and adverse market developments however prevented the Bank to start providing mortgage financing as well as financing under the warehouse receipt system. Medium-sized Co-financing Facility (MCFF) was also not widely used and may need to be adjusted to local circumstances to enable the Bank full utilisation of MCFF efficiency in processing.

During the previous Strategy period, between September 2007 and end of August 2010, the Bank signed 31 projects, on average 10 projects per year. Net cumulative business volume increased by EUR 222.6 million, more than a 100 per cent increase. The portfolio increased from EUR 87 million in September 2007 to EUR 258 million at the end of August 2010, up by 189 per cent during the past strategy period. The average size of transactions increased to EUR 7.2 million in the past strategy period from EUR 3 million in the previous strategy period 2005-2007.

Table 2: Portfolio Trends in 2006 - 2010

| <i>Amount in EUR million</i> | 2006 | 2007 | 2008 | 2009 | 2010 January- August |
|---|-------------|-------------|-------------|-------------|-------------------------------------|
| Net Cumulative Business Volume | 196.4 | 214.7 | 319.0 | 347.7 | 435.7 |
| Number of Operations (#) | 50 | 55 | 62 | 73 | 81 |
| Current Portfolio Stock | 72.3 | 89.3 | 176.7 | 200.9 | 258.3 |
| Number of Operations (#) | 35 | 35 | 39 | 46 | 48 |
| Operating Assets | 53.7 | 60.5 | 107.8 | 102.5 | 145.4 |
| % Undrawn | 24% | 29% | 38% | 49% | 44% |
| Annual Business Volume | 19.8 | 35.6 | 106.8 | 57.3 | 57.9 |
| Number of Operations (#) | 11 | 8 | 9 | 12 | 10 |
| Gross Disbursements | 9.7 | 20.4 | 58.9 | 11.6 | 45.6 |
| Annual Cancellations | 6.5 | 0.3 | 2.3 | 14.0 | 0.0 |
| Active Pipeline Stock | 70.1 | 207.1 | 203.6 | 217.8 | 244.0 |
| Private Sector Share (% Portfolio) | 77% | 72% | 63% | 88% | 83% |
| Non-Sovereign (% Portfolio) | 85% | 81% | 82% | 91% | 87% |

The last Country Strategy, approved in September 2007 (BDS/MO/07-1), outlined the following strategic priorities for the Bank in Moldova:

- **Financial Institutions.** *The Bank will provide its local partner banks with access to its SME and MSE credit lines, its Trade Facilitation Programme (TFP) as well as its Medium-sized Co-financing Facility (MCFF). The Bank will seek to extend its cooperation to new partner banks and will assist in the development and promotion of new financial instruments such as mortgage financing, leasing and energy efficiency credit lines. On the equity side, the Bank may consider further investment in banks, leasing companies and mortgage providers. The Bank will*

New SME credit lines were signed with five local banks (Eximbank, Mobiasbanca, MAIB, MICB, Banca Sociala), out of which three were new partner banks not using Bank's financing at the time of previous strategy approval. All partner banks have actively used TFP programme during the strategy period. However, MCFF was used less than expected, with just one project, as local banks preferred to provide parallel financing alongside the EBRD direct lending facility (DLF). Mortgage financing was supported by technical assistance but no EBRD project materialised due to the financial crisis. The Bank however signed two energy efficiency credit lines for industrial companies, with MAIB and MICB. The Bank also invested in equity of Mobiasbanca to support entry of a strategic foreign direct investor, Societe Generale. New microfinance credit lines were signed with Microinvest and Procredit Bank – these were the first local currency credit lines provided by the Bank in Moldova. The Bank provided financing to IMC Leasing, a non-banking financial institution, for a new financial product (leasing), and committed funds to two regional equity funds covering also Moldova.

- ***Private Enterprise.*** *The Bank will continue to pursue investment opportunities in all enterprise sectors including, without limitation, the food processing, manufacturing, information and communication technology (ICT), retail and property sectors. Well performing companies will be provided with direct financing including through ETC instruments. The Bank will facilitate foreign investment either by investing alongside foreign strategic investors or by assisting the development of local companies which in due course may attract foreign investment. Working capital may be provided to agribusinesses under the recently established warehouse receipt system. The Bank will continue to provide non-financial support to private enterprises through its Turn Around Management (TAM) and Business Advisory Services (BAS) programmes.*

The Bank supported five foreign investors, including one regional project, and three local investors in Industry, Commerce and Agribusiness during the past strategy period, and used ETCI instruments in five projects, both with foreign and local investors. The warehouse receipt system was however not used as expected due to high prices of agricultural commodities on the spot markets during harvest in recent years. A total of 144 enterprises benefited from BAS projects, including one in Transnistria region, and 15 enterprises were included in the TAM programme during the past strategy period (see Annex 10 on TAM/BAS activities in Moldova). To date, TAM/BAS-assisted companies in Moldova have attracted investments from the EBRD totalling EUR 13 million. At the same time, TAM/BAS companies received finance totalling EUR 24 million from local financial intermediaries through EBRD extended credit lines (out of these, EUR 20 million were signed in the past strategy period).

In the agribusiness sector the Bank provided financing to regional food retailer Furshet for expansion of its network from Ukraine to Moldova. EFES Vitanta Brewery received Bank's financing to modernise and expand production, including the installation of the first industrial waste water treatment system in Moldova. Grain and edible oil trading and processing company WJ benefited from EBRD financing to

invest in new equipment aiming to halve the consumption of natural gas and minimise the waste of raw materials and to expand procurement of oilseed from local farmers. Another grain and edible oil trading and processing company Transoil received EBRD financing for a new oilseed crushing plant in Ceadar Lunga, the first EBRD project in Gagauzia region. In manufacturing and services the Bank financed local private company CDG, the first modern diagnostic centre in Moldova. In property and tourism the Bank provided a syndicated loan to Mall Dova, the first modern shopping mall in the country, and debt financing to Iucan Comert for a modern office development using advanced energy saving techniques which are expected to save 350 MWh per year in energy consumption, equivalent to 120 tons of CO₂ annually due to energy efficiency measures introduced for the first time to Moldova. The EBRD also provided additional financing to Sun Communication, a local ITC company and existing client, for expansion of its services.

- ***Infrastructure and Energy.*** *Given Moldova's sovereign debt capacity constraints and the IMF's concessionality requirements, the Bank will - to the extent possible - co-finance public infrastructure projects with other IFIs and donors to ensure maximum leverage of grant and concessional financing. To enable Moldova to take full advantage of its new EU neighbourhood status, the Bank will give priority to infrastructure projects that promote regional integration and interconnection with neighbouring countries. The Bank is also committed to resume its municipal infrastructure lending provided sufficient grant financing can be attracted to address affordability constraints. The Bank will continue to support private infrastructure investments.*

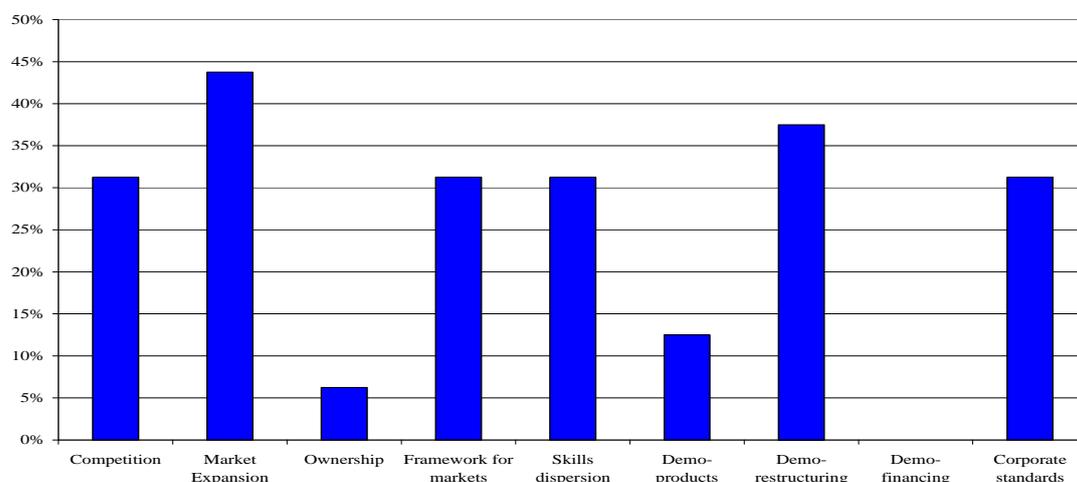
In line with 2007 strategic priorities for infrastructure and energy described above, the Bank has provided financing for two sovereign infrastructure projects during the past strategy period. Road Rehabilitation Project targeted rehabilitation of strategic national roads that are part of international road network, alongside EIB loan, WB IDA financing, and EU NIF grant, satisfying IMF concessionality requirement. However, due to procurement issues, the first phase of the road rehabilitation project committed in 2007 was cancelled in January 2009. The tender for the second phase committed in 2008 successfully proceeded in 2010. The Bank also resumed its municipal infrastructure lending and provided a sovereign loan to six regional water utilities, alongside EIB loan and EU NIF grant to address affordability concerns. This is the first IFI project in Moldova which supports regionalisation of water utility companies and which includes an on-lending agreement with autonomous Gagauzia region. The Bank also provided non-sovereign, municipality guaranteed financing to Chisinau Trolleybus Company to support its restructuring, alongside EIB loan and EU NIF grant. This is the Bank's first municipal project in the capital without a sovereign guarantee. The Bank also provided financing for airport modernisation, on a corporate basis without a sovereign guarantee, committed equity financing to private water utility Aqualia to expand into Moldova, and supported further investments in electricity distribution network by private power distribution company Union Fenosa.

1.3 Transition Impact of the Bank's Portfolio and Lessons Learned

Above average share of projects undertaken by the Bank in the past strategy period in Moldova was ex-ante rated Excellent, at 25 per cent, compared to the average of all ETC countries at 21 per cent. Only one project during the past strategy period, a corporate loan to Mobiasbanca following its acquisition by Societe Generale, was

signed with a satisfactory rating. As of June 2010, 95 per cent of all projects in the portfolio were rated in the transition impact monitoring system as Good or Excellent.

Figure 1: Percentage of projects pursuing given transition objectives, 2007-2010



1.3.1 Financial Institutions

Banking – In 2008 the EBRD decided to provide domestic financial institutions with a full range of financial products including mortgage and leasing finance, SME and energy efficiency credit lines under EUR 70 million Financial Sector Framework. This Framework was meant to increase competition in the sector, yet it is too early to judge on its success, in part due to the impacts of the global financial crisis. **MSME** – Two projects have been evaluated in the reporting period in this segment: the credit line to Banca Sociala (PEX08-330) has been successfully enabling lending activities to smaller SMEs and saw a significant change at client level. Conversely the similarly structured operation with Moldincombank (MICB) approved in 2004 experienced difficulties with the client’s corporate governance and thus, could not reach its anticipated transition impact. A *lesson learned* from the MICB project was that a good standard of governance and transparency is essential in difficult business environments, as over-optimism in this respect at the project appraisal stage has caused an inefficient implementation later on (PEX07-318). This lesson learned was taken on board by the Bank and the new transaction with the MICB approved in 2009 successfully addressed identified corporate governance challenges.

1.3.2 Industry, Commerce, Agriculture¹

Agribusiness – After the *Unsuccessful* outcome of the Moldovan Wine Export Promotion project, EBRD focused on policy dialogue for the use of warehouse receipts. Although the related legislation was already approved in 2006, its implementation has only slowly progressed. In 2008 the Bank approved a loan to Efes Vitanta Brewery for supporting the company to modernise and expand its brewing capacity, as well as to build a waste water treatment facility. While at an early stage the project appears on track in achieving its transition impact through improved business standards, backward linkages and know how transfers. The economy remains

¹ The Chisinau Shopping Mall in the sub-sector ‘Property and Tourism’ has not been presented here as it is currently being evaluated.

still focused on the agribusiness sector with almost 40 per cent of exports in 2008 deriving from agriculture or agro-processing activities. Thus, there is a need for further diversifying the Bank's activities.

1.3.3 Infrastructure and Energy

MEI – In 2010, Moldova Water Utilities Development Project has been approved. This project is structured as priority investments and foresees the regionalisation of water companies by expanding their operations into neighbouring localities. **Transport** – the Chisinau Airport Priority Modernisation Project had been followed by a second project approved in 2008. The loan to the state-owned airport company aims at increasing private sector participation and at demonstrating new replicable business behaviour e.g. by the preparation of a twenty year Master Plan. The most recent TIMS report (TIMS 37879-1, July 2009) describes the project being on track to achieve its *Good* potential albeit related risks are seen as *High*. The Moldova Road Modernisation project was approved in 2007 with a view to support sector reform and institutional strengthening with particular regard to the State Road Administration. Whilst early achievements of this project include the approval of a road sector strategy and legal amendments on the road fund, the procurement process for the first part of the project failed due to political interference. Reflecting this incident, in January 2009, transition impact rating of this project, originally *Excellent* with *High* risk, was downgraded to *Good* with *Medium* risk.

1.4 Portfolio Ratio

The private sector portfolio ratio increased from 72 per cent at the end of 2007 to 83 per cent at the end of August 2010 due to the rapid expansion of operations in the private sector.

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

2.1.1 Political Developments

The previous Strategy period was marked by a significant political watershed: the ousting from government of the long-dominant Communist Party and its replacement by a coalition of liberal, generally reform-oriented, pro-European parties in September 2009. However, that watershed event has been followed by a still-unresolved constitutional stalemate that has weakened the government's capacity for policymaking and the implementation of its ambitious reform agenda.

Regular parliamentary elections in April 2009, which resulted in the ruling Communist Party securing an overall majority, sparked street protests that escalated into full-scale riots in Chisinau. Once order had been restored, the Communist Party made two attempts to elect its candidate to the presidency. Both attempts failed to garner the 61 votes necessary and parliament was dissolved and early elections were held in July 2009.

This first early election resulted in a significant shift in popular support away from the Communist Party and towards four liberal opposition parties, which together received a small majority of 53 seats. Those four parties formed a coalition government, the “Alliance for European Integration” (“AEI”). The AEI Government launched an active process of designing and soliciting international support for a wide-ranging anti-crisis and economic reform agenda, culminating in late-2009 in the adoption of a comprehensive Economic Stabilisation and Recovery Programme.

However, like its predecessor, the first AEI Government was unable to marshal the required supermajority in parliament to elect its presidential nominee. In an attempt to break this deadlock, in September 2010 the AEI Government launched a national referendum on amending the constitution to allow for the direct election of the president. However, turnout fell short of the required 33.3 per cent, and the AEI Government was forced to call a second early parliamentary election in November 2010.

In the second early parliamentary election, the Communist Party once again won a plurality of the national vote, although its popular support has continued to decline. Of the four AEI coalition parties, the Liberal Democrats significantly increased their vote share, receiving 32 seats; the Democratic Party made a small gain to pick up 15 mandates; the Liberal Party’s seat-share fell from 15 to 12; while Our Moldova Alliance failed to cross the four per cent threshold. It is therefore possible for the AEI Government to be reconstituted. However, once again no configuration of parties that could realistically cooperate to form a government has been able to achieve the supermajority required to elect the president.

While the AEI Government has successfully implemented many of the short-term anti-crisis elements of the Reform Programme, the prolonged period of political uncertainty – which now looks likely to continue into 2011 and possibly beyond – has significantly weakened the government’s capacity to implement the deeper structural reforms outlined in the Programme. Making progress in addressing Moldova’s significant remaining transition challenges – including in vital areas such as reforming the judiciary and combating corruption – will require sustained political will, a harmony of interests, and a shared commitment to Moldova’s European integration process across all branches of government.

2.1.2 Business Environment

Moldova’s investment climate has been gradually improving over recent years, although significant challenges remain, particularly in the area of implementation of Moldova’s generally good laws and regulations. The National Agency for the Protection of Competition (NAPC), which was established in 2007, has now issued a number of important rulings, although there was a troubling lack of transparency and accountability in the consultation and decision-making processes in a number of cases against foreign-owned companies. Moldova’s Competition Law still requires amendments to bring it into line with international best practice. The Law on Licensing Entrepreneurial Activity, which was intended to curb tax evasion but was strongly opposed by a number of SME associations, has been amended to permit SMEs to provide some services and trade most goods on the basis of the pre-existing simplified licensing regime. Problems related to tax administration and customs –

topping the list of obstacles to doing business in the 2005 EBRD's BEEPs survey – were replaced in the 2008 round with problems related to access to land and the lack of skilled workers. Although Moldova was included in the World Bank's *Doing Business* index only for two years, its global rating improved by 14 notches between 2009 and 2010, reflecting large improvements in the ease of property registration and tax payment procedures.

2.1.3 Physical Environment

The Republic of Moldova is moving towards European integration and is part of the EU Neighbourhood Programme, which includes discussions on harmonisation of environmental law. The Moldovan government has ratified 18 International Environmental Conventions, including the UNECE Aarhus and Espoo Conventions. They have developed action plans to deal with the implementation of many of the conventions, although progress on them is restricted, because of financial implications.

The three most significant environmental problems Moldova faces are 1) water quality, which is the greatest concern for human health, 2), soil degradation, and 3) loss of biodiversity. Approximately 75 per cent of land surface is used for agriculture, and the environment suffers from the heavy use of agricultural chemicals, and poor farming methods (e.g., lack of crop rotation, use of agricultural chemicals), which have caused widespread soil erosion and reduction in soil quality. Climate change is also likely to significantly affect Moldova, resulting in impacts on agriculture, as well as water management. More information on environmental issues is provided in Annex 3.

2.1.4 Social and Gender Issues

Between 1999 and 2004, Moldova's economic recovery enabled 40 per cent of the population to move out of poverty. The poverty rate continued to decline up until 2007, although at a slower rate. The poverty level increased again in 2008, even before the full impact of the crisis was felt. Poverty is expected to increase further in 2010, due in part to the fall in remittances by almost a third in 2009.

More than 25 per cent of the economically active population has left the country in search of improved economic opportunities abroad. A significant number of these are highly skilled and educated. However, since the beginning of the crisis, it has been more difficult for these economic migrants to retain a job in the receiving countries and continue to send money back home.

The continuing high levels of poverty and unemployment and a growing urban-rural divide, have had a negative effect upon gender equality, with the socio-economic status of women particularly deteriorating in rural areas.

Women's employment rate is 37.7 per cent as against 42.6 per cent for men. The difficulty for women to find meaningful employment, exclusion from traditionally male dominated sectors and a concentration in lower paid sectors is considered to be one of the principal causes of female poverty and one of the root causes of both emigration and trafficking. In addition, in general, women have been

disproportionately affected by economic restructuring. Most vulnerable to poverty are women in rural areas, female headed households and women from ethnic groups, particularly the Roma. Furthermore the lack of adequate social services has affected women's ability to advance in the workplace.

There have been some positive developments during the transition period with respect to gender equality, especially since the election in 2005, with the adoption in February 2006, of the "Law on Ensuring Equal opportunities for Women and Men". Women now represent over 21 per cent of seats in the national parliament, as compared to 3.8 per cent in 1990. After the local elections in 2007 the number of female mayors increased by 3 per cent (as compared to 2004). Women now represent 26.5 per cent of all councillors in village councils.

2.1.5 Legal Reform

Over the years, Moldova has carried out extensive reforms of its legal framework and has managed to put in place a comprehensive legislative base for the transition to a market economy. In recent years Moldova adopted several new important laws, including a law on public-private partnerships and a law on mortgages (prepared with EBRD technical assistance), which intend to eliminate administrative hurdles, simplify the legislative regulation in the respective fields and to a large extent encourage the in-flow of local and foreign private investments. However an analysis of key commercial laws that directly contribute to creating a favourable investment climate in Moldova still shows that even relatively good laws suffer from serious implementation problems. A weak judiciary and complex enforcement procedures further undermine investors' confidence. Even though certain measures in tackling corruption in judiciary, such as the adoption of a new code on judicial ethics which came into effect in early 2008, have been undertaken, corruption and political interference still remain a concern in the judicial sector of Moldova. Going forward, Moldova should continue to bring its commercial laws in line with international standards and make those laws fully effective, particularly by strengthening the court system, tackling corruption and implementing other measures to strengthen the rule of law. For the Bank's assessment of selected commercial laws please refer to Annex 4.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic Conditions for Bank's Operations

Following a decade of economic growth, the Moldovan economy was seriously affected by the global economic crisis in 2009. Industrial production declined by 22.2 per cent in 2009, investment halved and consumption also declined significantly. Consequently, the economy contracted by 6.5 per cent, mostly based on a very poor first and second quarter performance. The policy response has mostly been based on monetary policy, as the National Bank of Moldova has taken a number of steps to ease the liquidity constraints, including several reductions in the refinancing rate (from 18.5 per cent in August 2008 to a historic low of 5 per cent in January 2010) and lower reserve requirements for commercial banks. The NBM also used its international reserves to avoid depreciation of the Moldovan Leu in the course of 2009.

Inflation for the full 2009 stood at only 0.6 per cent, but in recent months inflationary pressures have resumed, requiring interventions from NBM to counter excessive price inflation. The external imbalance declined in the course of 2009, mostly based on a very rapid decline of imports. The current account deficit is estimated to have declined to 10.7 per cent of GDP in 2009, from 16.7 per cent in 2008. The NBM used its currency reserves in the first part of 2009 to defend the Moldovan Leu, but significant depreciation was allowed in late 2009 against the dollar and the euro, bringing the Leu in real terms in line with regional currencies (Ukraine, Romania). The external debt – both public and private - increased in the past three years and stands at about 80 per cent of GDP.

The recovery is expected to continue in 2010-11, driven by recovering external demand from Moldova's main EU and CIS trading partners. Funding from the IMF and official donors will boost public finances and provide an external anchor and support to further structural reforms. GDP growth at around 4 per cent is expected over the medium-term, provided stability is maintained through the forthcoming parliamentary and presidential elections. The main risks to this outlook stem from external factors, including the high volatility of remittances and uncertainty over export demand.

2.2.2 Transition Success and Transition Challenges

Economic diversification to expand productive capacity in a wider range of sectors and reach a more extensive set of export markets remains a key challenge. Better product quality and quality control systems would enable the economy to better benefit from the EU Autonomous Trade Preferences trade regime and to further diversify export markets.

Further improvement of the business environment – particularly establishment of a level playing field to all market participants and streamlining of business regulations and their enforcement – are needed to attract more investment and raise the economy's growth prospects.

A full reform of the energy and municipal sectors is required to secure financial sustainability, attract investment and ultimately improve service delivery.

Energy/Infrastructure sectors

Losses and arrears in the heating sector have begun to be addressed. Parliament transferred the responsibility for heat tariff setting from the municipal authorities to the energy regulator ANRE. In January 2010, ANRE adjusted the heating tariff in Chisinau to a level sufficient to cover heating costs, which should ensure current payments to suppliers of heat and curtailment of the arrears' build-up. A Memorandum of Understanding on current energy sector debt resolution and the will to work towards resolution of historical debts was signed between all involved parties in June 2010. Meanwhile retail gas and electricity tariffs were also increased, reflecting the higher cost of gas and electricity imports and domestic electricity generation. Furthermore, in September 2009 the Chisinau municipality approved substantial tariff increases for water provision and public transport, following tariff freezes for several years. The municipality of Chisinau and the Government of

Moldova aim to support low income households by targeted assistance for heating and gas.

Enterprise sector

The government took some early steps to improve the business environment in the last quarter of 2009. Administratively imposed restrictions on certain sectors were either lifted or relaxed – wine, grape and grain export restrictions were lifted and mandatory certification of each import consignment was abolished in an attempt to enhance competition on domestic markets. Furthermore, some administrative procedures were also simplified and the reform of the state bureaucracy was initiated with the restructuring of several state agencies and ministries.

As part of the structural reforms package in the IMF programme, the government has pledged to accelerate structural reforms and support the fiscal effort. Structural reforms are set to focus on further reducing bureaucracy and simplification of the administrative procedures for firms including a drastic reduction in the number of goods that require mandatory compliance certification, enforcement of the one-stop shop for firm-government interactions, improvements in joint-stock company legislation, simplification of company registration and liquidation, reduction of the tax reporting burden and improvements in the regulatory framework for sanitary and veterinary services.

Financial sector

The banking sector remains stable and largely unaffected by the crisis in international financial markets, but the severe recession in 2009 has affected credit quality and one commercial bank has been closed. The capital adequacy ratio remains high at 32.3 per cent, substantially above the NBM mandated minimum of 12 per cent, while liquidity remains abundant. Foreign banks have maintained their exposure to their Moldovan subsidiaries. Nevertheless, credit quality has declined substantially and NBM reported a non-performing loan ratio of 17.3 per cent at the end of January 2010. Investprivatbank, a medium-sized private bank, had its licence revoked by the NBM in June 2009 as a result of repeated violations of NBM regulations and prudent banking principles that led to high exposure to crisis hit sectors and subsequent insolvency. The bankruptcy procedure of Investprivatbank has been orderly, but NBM has stepped up its efforts in improving its ability to intervene early in problem banks and improve the effectiveness of the Deposit Guarantee Fund. Domestic credit to the private sector declined by some 5.2 per cent in the course of 2009, but lending to the economy has declined more substantially. While the sharpest decline was for local currency lending to households, SMEs also reported substantial difficulties in obtaining credit.

2.3 Access to Capital and Investment Requirements

Access to financing remains constrained. Borrowers face short loan tenors which limit their ability to embark on long-term investment programmes and the high real interest rates which often make loan financing only suitable for very profitable projects. Access to international capital markets is limited due to the small size (by international standards) of most firms and banks and the unfavourable risk profile of

the economy. A commercial private equity sector is yet to develop and to date the country has not attracted significant interest of international private equity funds.

3. STRATEGIC ORIENTATIONS

3.1 Bank's Priorities for the Strategy Period

Moldova is an early transition country with significant reform and investment needs in infrastructure and energy, including greater focus on energy efficiency, corporate sector dominated by small enterprises in the services sector, and underdeveloped financial system. To address these challenges, the Bank will continue to pursue viable financing opportunities alongside intensive policy dialogue in key reform areas (see Annex 6 with project pipeline for 2010 by sector).

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Infrastructure

Transition goals:

- Upgrade of internal transportation and communication infrastructure to offset high cross-border costs, including through reforms of road maintenance and financing, better procurement practices, and privatisation of transport-related companies.
- Restructuring of companies providing municipal services, including i) introduction of public service contracts, ii) operational and financial restructuring of large utility companies, iii) regionalisation of small municipal service providers, and iv) tariff reform.
- Greater involvement of the private sector, including private-public partnerships and private concessions awarded via open, competitive tenders.

Operational priorities:

The Bank will continue with support for the rehabilitation of the key national transport infrastructure, mainly roads, alongside support for reform of road maintenance and financing, greater role for the private sector, and better procurement practices.

The Bank will seek to build on its successful policy dialogue with Chisinau municipality to consider further financing for municipal services in the capital, including for water utility Apa Canal Chisinau, based on increased transparency, better corporate governance, and improved operational and financial management, potentially via private concessions awarded in open competitive tenders.

In the regions the Bank will continue with its efforts to promote further regionalisation of small, inefficient public service providers, focusing on water utilities, alongside other steps to improve operational and financial management and implement necessary tariff reform.

Potential infrastructure projects are expected to be co-financed by other IFIs, particularly the EIB, and would require significant technical assistance and investment grants to ensure affordability and successful implementation.

3.2.2 Energy

Transition goals:

- Energy sector restructuring, including both sector-wide restructuring and operational and financial restructuring at the level of individual companies with a strong focus on greater cost efficiencies.
- Regulatory and tariff reform to promote transparency and enable financially viable investments.
- Greater energy efficiency.

Operational priorities:

The Bank will support reform steps taken by the authorities and aim to provide financing for the rehabilitation and expansion of energy sector assets, including strengthening international connections and supporting renewable energy investments, both in the public sector and with private investors. The Bank will also support Moldova joining the coordinated European transmission network and meeting the Energy Community Treaty requirements.

The Bank will continue identifying, financing, and promoting energy efficiency investments across all sectors.

3.2.3 Industry, Commerce and Agriculture

Transition goals:

- Increased competitiveness and efficiency of local enterprises, including energy efficiency.
- Entry of foreign strategic investors.
- Introduction of new replicable products and processes to diversify the economy and increase the export potential of the country.

Operational priorities:

Support for financially viable investments in the agribusiness processing, storage, distribution, logistics and retail, including in the dominant wine sector, will be a key priority for the Bank. The sector will be targeted by both direct debt and equity instruments as well as through close cooperation with local financial institutions to ensure maximum reach of Bank's financing, including specific agricultural credit lines with adequate technical assistance, and support for leasing of agricultural equipment, on a regional basis if necessary.

The Bank will support restructuring and dynamic growth of local enterprises to increase their competitiveness as well as new entry of strategic investors by direct financing of companies with both debt and equity instruments, mainly through ETCI framework products, and also utilising non-financial assistance provided by TAM / BAS.

In the property and tourism sector the Bank will continue to consider innovative projects, including energy efficiency investments, which would introduce viable

financing structures into the market dominated by speculative investments. The Bank will continue to support small scale investments and co-financing across all property assets.

The Bank will support the development of a full range of competitive ICT service providers, including by selective financing of public infrastructure.

The Bank will be ready to provide pre-privatisation restructuring financing as well as direct privatisation support for state owned telecommunications operator MoldTelecom.

3.2.4 Financial Institutions

Transition goals:

- Deepening of financial intermediation by expanding the range and reach of financial products.
- Improvements in corporate governance, transparency, and operational management of financial institutions.

Operational priorities:

The Bank will continue to support expanded lending to SMEs and micro-enterprises through dedicated credit lines, primarily with existing client banks, and use local currency when appropriate and available through TCX as was already successfully done in 2009 and 2010. The Bank will also continue to encourage full utilisation of its Trade Facilitation Programme to promote regional co-operation. Risk sharing and co-financing with local partner banks will continue to be supported by actively promoting MCFF.

The Bank will focus strongly on the expansion of new products, both with local banks and non-banking financial institutions, including energy efficiency credit lines, leasing, insurance, mortgages (subject to the market conditions), and will aim to launch a dedicated agricultural sector lending facility.

The Bank will selectively provide debt as well as other products (including equity, if appropriate opportunities arise) to expand the range of available financial instruments for Moldovan financial institutions. Improvements in corporate governance, transparency and operational management will continue to be sought in new projects with both existing and new clients, particularly in any potential equity transactions.

The Bank will be ready to consider support for privatisation of the remaining majority state-owned bank, Banca de Economii.

3.3 Policy Dialogue

The Bank will continue to pursue intensive policy dialogue to address key transition challenges and support operational delivery. Policy dialogue will build on achievements under the previous country strategy and will be closely related to transition objectives under portfolio as well as pipeline operations. It will focus on

five key areas: transport, municipal infrastructure, energy (including energy efficiency), business environment, and financial sector:

- Transport sector policy dialogue will focus on improving procurement practices, deepening of road maintenance and financing reform, continuing reform of the aviation sector, and greater involvement of the private sector.
- The Bank will continue to engage in intense policy dialogue on energy sector debt restructuring, energy regulatory reform, and adoption of appropriate tariffs to enable financing for the rehabilitation of the existing power generation assets as well as investments in renewable energy.
- In the energy efficiency area the EBRD will expand its policy dialogue and assist in the development of a regulatory framework on energy efficiency of buildings aligned with European Directive on Energy Performance of Buildings. In addition, the Bank will assist with the preparation of a dedicated Law on Energy Efficiency of Buildings and on amending Housing Codes to unlock residential sector for sustainable energy financing.
- In the municipal and environmental infrastructure, policy dialogue and project conditionalities will focus on further regionalisation of inefficient small municipal operators, tariff reform, better procurement practices, improvements in corporate governance as well as operational and financial restructuring through the introduction of public service contracts and potential private concessions, in close cooperation with other donors.
- Policy dialogue on business environment will focus on attracting and promoting investments in export oriented activities, including in the agricultural sector. The EBRD will consider potential assistance to help set up a high level Consultative Council on Investment Climate.
- Improvements in financial sector transparency and corporate governance as well as privatisation of remaining state owned bank will continue to be the focus of policy dialogue with the authorities in the financial sector.
- Technical assistance may be provided to both financial institutions and the authorities to facilitate deepening of financial intermediation, improve risk management and strengthen financial system stability.

3.4 Environmental and Social Impact

New projects are subject to the 2008 Environmental and Social Policy (ESP). The Policy and accompanying Performance Requirements has been translated into Moldovan and Russian.

With regard to the proposed transport projects, the environmental and social issues associated with rehabilitation of existing roads are normally minor and easily mitigated. Improvement of the water and wastewater treatment as well as waste management in Moldova would be associated with significant social benefits, primarily in public health. On the environmental side, climate change would have to be looked at in water projects, as Moldova is predicted to experience significant impacts of climate change, some of the highest in the region.

Environmental and social issues are sometimes associated with the siting of power transmission and distribution networks, and issues like resettlement and livelihood impacts have to be taken into account in the event of any displacement. For distribution systems, the education and awareness of the public with regard to

electrical hazards is below an optimal level in Moldova, which has led to significant numbers of fatalities, both accidental and resulting from attempted theft of cable or electricity; the Bank has been working with the Moldovan government on this issue for a number of years. This issue would have to be reviewed for potential projects to see what reasonable measures clients could undertake to reduce incidents.

Investment in agribusiness will need to take climate change into account. Moldova is likely to be significantly affected by climate change, and is currently challenged by water resource management and soil degradation (see Annex 3), all critical components of agribusiness.

With its emphasis on SME development through local FIs, the Bank provided support to strengthen environmental and social risk management capacities of local FIs by organising an in-country environmental and social due diligence training in 2006, and will plan another training session as time and resources permit. The trainings ensure that partner FIs are capable of implementing environmental and social due diligence procedures which are incorporated into the FIs' credit/investment appraisal processes. The training module will include such issues as compliance of partner FI clients with national environmental, health and safety standards and requirements, public disclosure and consultation requirements, and employment laws and standards related to the employment of children and young people, discrimination at work, and forced labour.

As part of the implementation of the EBRD's Gender Action Plan, the Bank will continue to support women entrepreneurship through Financial Institutions projects by increasing the access to finance for women-owned MSMEs especially in rural areas. Also, in the MEI sector projects, the Bank will seek to improve equitable distribution of project benefits amongst men and women and to enhance the role of women in defining priorities for municipal investments. In other priority sectors, the Bank will focus on identifying and encouraging clients to adopt gender balanced approaches in their human resources policies and practices (e.g. work-life balance, flexible working hours, family friendly initiatives, etc).

4. COOPERATION WITH THE EUROPEAN UNION

The EU is developing an increasingly close relationship with Moldova, going beyond co-operation to gradual economic integration and a deepening of political co-operation. Moldova is a partner country within the European Neighbourhood Policy (ENP), with a joint EU-Moldova ENP Action Plan based on the Partnership & Cooperation Agreement. National Indicative Programme of the EU for the Republic of Moldova for 2011-13 sets three key priority areas: i) Good governance, rule of law and fundamental freedoms; ii) Social and human development; and iii) Trade and sustainable development. The indicative budget from the European Neighbourhood and Partnership Instrument was set at EUR 273.14 million.

Since 2007, the EU provides sector-budget support to Moldova. In 2007 EUR 21 million were committed for the social assistance sector. The budget support of EUR 46.6 million approved in 2008 has been dedicated to the health sector. In 2009 the EU approved EUR 45 million budget support for the water sector. In 2010, budget support of around EUR 50 million is envisaged for economic stimulation in rural areas. In addition, in October 2010, the EU approved EUR 90 million macro-financial

assistance grant, tied to reform progress, acknowledging Moldova's vulnerable external position and showing the willingness of the EU to support Moldova's reform efforts.

The cooperation between the EBRD and EU in Moldova is three fold:

- i) Close cooperation in policy dialogue, including joint missions on specific sectors such as the energy and transport and from 2011 also the water sector; and detail discussion of policy matrices related to relevant sector-budget support programmes described above such as 2009 EU budget support programme for the water sector;
- ii) Technical assistance for specific projects, with the EU providing over one third of total TC commitments to date (see Annex 7);
- iii) Investment co-financing using the EU Neighbourhood Investment Facility (NIF). Since establishment of EU NIF in May 2008 until the end of August 2010, the EBRD, together with the EIB, successfully applied for EU NIF grants totalling EUR 29.75 million for 5 projects with the total project value of EUR 242 million, out of which the EBRD finances EUR 84 million. Further applications for additional financing from EU NIF are expected during the new strategy period, in particular for infrastructure and energy sector projects.

| Project <i>(EUR million)</i> | Sector | Total Project Cost | EBRD Financing | Status of EBRD financing | EU NIF |
|--|---------------|---------------------------|-----------------------|---------------------------------|---------------|
| Road Rehabilitation Project | Transport | 92.5 | 30 | signed in 2007 | 12 |
| Chisinau Airport Modernisation Project | Transport | 46.25 | 24 | signed in 2008 | 1.75 |
| Moldova Water Utilities | MEI | 31.5 | 10 | signed in 2010 | 10 |
| Chisinau Trolleybus Project | MEI | 13 | 5 | signed in 2010 | 3 |
| Apa Canal Chisinau | MEI | 59 | 15 | preparatory stage | 3 |
| Total | | 242.25 | 84 | | 29.75 |

5. OTHER IFIS AND MULTILATERAL DONORS

The Bank closely cooperates with other donors (see Annex 7 with technical assistance by donor and sector and Annex 8 for the list of all technical assistance projects). The main areas of co-operation between the EBRD and other donors include:

- **Policy dialogue coordination:** The EBRD is an active participant in donor coordination meetings with the government, including both general donor coordination and sector specific coordination activities on i) private sector, ii) financial sector, iii) water and environment, iv) transport, and v) energy. The donor coordination on policy dialogue includes i) regular, usually monthly, sector consultative council meetings chaired by the respective Minister of the Government, ii) joint missions of donors to discuss specific sectors or projects, and iii) ad-hoc meetings as and when necessary. In the private sector, policy dialogue coordination among IFIs and donors is less formal than in infrastructure

- **Technical assistance:** The Bank is actively using significant technical assistance from the EU, bilateral donors and special funds, such as the ETC Fund and the EBRD Shareholder Fund, mainly for project preparation and implementation. The Bank also pursues donor financed legal and regulatory technical cooperation in key strategic areas, including energy efficiency, competition, telecommunications, energy regulation, and the financial sector. Additional areas, where more active involvement with donor financed technical cooperation assignments is expected during the next strategy period, include support for public private consultative activities (setting up of the Consultative Council on the Investment Climate), institutional improvements for private sector investors, and private concessions.
- **Project co-financing:** All infrastructure and energy projects undertaken by the EBRD during the past strategy period involved investment co-financing with at least one other IFI (EIB, IFC, WB). This cooperation is expected to continue during the strategy period under consideration. All infrastructure and energy projects, in particular, are prepared together with the EIB and are expected to benefit from EU Neighbourhood Investment Facility (NIF) co-financing. Although EBRD loans are not subject to the IMF concessionality requirement under the new IMF programme, affordability constraints require significant grant co-financing, particularly in the regions outside the capital.

5.1 European Investment Bank (EIB)

The EIB has a mandate to provide financing to Moldova under the Framework Agreement signed in November 2006. Moldova is eligible to receive financing for projects of key common interest in the areas of transport, energy, telecommunications and environmental infrastructure. Since 2009 the EIB has also a mandate to finance SMEs in Moldova. Until end of August 2010, the EIB has signed two projects in Moldova, both co-financed by the EBRD and the EU NIF. In June 2006, the EIB signed a loan of EUR 30 million with the Republic of Moldova, to support the rehabilitation of roads linking the capital Chisinau to the EU border. In December 2008, the EIB provided a loan of EUR 20 million for the rehabilitation and capacity increase of Chisinau airport. In November 2010, the EIB provided EUR 75 million sovereign loan for the road rehabilitation, co-financed by the EBRD, EUR 75 million sovereign loan for the wine sector, and EUR 20 million global loan to Mobiasbanca, an EBRD client, for onlending to local SMEs. The EBRD would consider potential co-financing of financially viable wine companies included in the EIB programme (if any) both directly and through existing credit lines, provided that those companies meet EBRD mandate. At present, the EIB is considering three new infrastructure projects in energy and municipal infrastructure sectors, co-financed by the EBRD, which is the lead lender, and the EU NIF, as well as financing for SMEs through local participating banks, also existing EBRD clients.

5.2 World Bank Group

The Republic of Moldova has been a member of the World Bank Group since 1992 and the International Development Association since 1994. The World Bank Country

Partnership Strategy for Moldova for 2009-2012 was approved in January 2009 and foresees total commitments of around US\$45-50 million per annum, partly channelled through direct budgetary support. The World Bank also supports investments in modernizing infrastructure and improving access to public services, as well as projects with regional or global environmental benefits. In addition to its lending operations, the World Bank Group provides a range of analytical and advisory services, complemented by investments and guarantees through Bank Group institutions (IFC and MIGA) to strengthen and expand financial and private sector growth.

International Development Association (IDA)

In fiscal year 2009, the World Bank committed \$25 million to Moldova. Total commitments reached US\$184.3 million, of which about 61 per cent were undisbursed. The ongoing IDA portfolio is concentrated in infrastructure, and human development and rural development. The World Bank also administers US\$94 million trust fund portfolio of 31 activities in Moldova, the largest in its Europe and Central Asia region, to support sustainable development, human development, public sector reform and competitiveness.

The World Bank is a lead donor on the transport sector, and active donor in energy and water sectors, closely coordinating its policy dialogue with the EBRD, including leading of or participating in joint missions in these sectors. The EBRD and the WB have been also providing complementary financing in transport and water sectors, with further complementary financing in infrastructure and energy expected to continue in the new strategy period.

International Financial Corporation (IFC)

The Republic of Moldova has become a member of the IFC in 1995. The IFC has committed US\$ 87 million of its own funds and arranged \$25 million in syndications for projects in infrastructure, telecommunications, agribusiness, and the financial sectors. The IFC Advisory Services are active in Moldova since 1997 in the banking, textiles, food processing and agriculture sectors.

During the past strategy period the IFC provided US\$10 million in debt and equity for balance sheet restructuring to Bostavan Wineries in April 2008, US\$7 million SME credit line to ProCredit Bank in July 2009, US\$15 million SME credit line to MAIB in August 2010, and US\$12 million to private power distribution company Union Fenosa in December 2009, co-financing EBRD loan of the same amount. The EBRD will continue to cooperate with the IFC on coordinating its support for the private sector in Moldova.

5.3 International Monetary Fund (IMF)

The Republic of Moldova joined the IMF in August 1992. In January 2010, the IMF Board of Directors approved a combined Extended Credit Facility/Extended Fund Facility Arrangements each running for three years with access totalling SDR 369.6 million (300 per cent of quota, or US\$574 million) split equally between the two facilities. The new facilities support the government economic program, which aims to restore fiscal and external sustainability, preserve financial stability, and support

growth. Under the new IMF programme, external debt ceilings do not apply to credits from international financial institutions.

The EBRD closely coordinates its activities with the local IMF office as well as IMF consultation visits, with the emphasis on the coordination of support for reforms in infrastructure and energy sectors as well as support for financial sector stability and financial intermediation deepening.

LIST OF ANNEXES

- Annex 1: Political Assessment
- Annex 2: Assessment of Transition Challenges
- Annex 3: Environmental and Social Development
- Annex 4: Commercial Laws of Moldova
- Annex 5: List of Signed Projects
- Annex 6: Project Pipeline
- Annex 7: Technical Assistance by Donor and Sector
- Annex 8: List of Technical Assistance Projects
- Annex 9: Selected Economic Indicators
- Annex 10: TAM / BAS Activities in Moldova
- Annex 11: Map of Moldova

ANNEX 1: POLITICAL ASSESSMENT

Compliance with Article 1

Moldova is committed to and is making progress in applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank, although application of these principles in the previous Strategy period was somewhat uneven. Particular areas of concern include the weaknesses in the democratic electoral framework, the weak rule of law and lack of judicial independence.

Political Accountability

Moldova is a multiparty parliamentary democracy in which the unicameral parliament is elected through proportional representation and the president is elected by the parliament on the basis of a supermajority of three-fifths of parliamentary mandates. The president appoints the prime minister who forms the cabinet. The appointments of the prime minister and the cabinet are subject to approval by the parliament. In principle, the Constitution provides for the separation of powers, checks and balances and an independent judiciary. However, particularly during the first part of the previous Strategy period, the executive enjoyed wide powers and effective checks on executive privilege were weak.

Moldovan citizens have the right to change their government through periodic elections held on the basis of universal suffrage. Elections in Moldova have been judged generally free and fair by international observers, although some problems have been noted in important areas that are central to a competitive election process. Two parliamentary elections and one national referendum have been held since April 2009. Each of these electoral events largely conformed to international standards for democratic elections, according to international observer missions from the OSCE and Parliamentary Assembly of the Council of Europe. However, shortcomings were nevertheless noted with regard to administrative interference, procedural weaknesses (particularly the accuracy of voter registration lists), and media bias.

Scheduled parliamentary elections were held on 5 April 2009. Early results seemed to indicate that the then-ruling Communist Party had received just less than 50 per cent of the national vote and would achieve the supermajority of 61 seats in the 101-seat legislation required to elect the president. Three opposition parties – the Liberal Party, led by Vlad Filat, the Liberal Democrats, led by Mihai Ghimpu, and Our Moldova Alliance, led by Serafim Urechean – crossed the six per cent threshold to enter parliament. These three parties together alleged that the vote count had been fraudulent and called their supporters onto the streets. Although the Central Electoral Commission concluded that the Communist Party had in fact received only 60 mandates – and therefore did not have a supermajority in parliament – on 7 April the street protests escalated and turned violent, with protesters rioting in downtown Chisinau and causing extensive damage to the parliament and presidential administration buildings.

Once order had been restored to Chisinau, the Communist Party on 10 April requested a full vote recount, which was approved by the Constitutional Court and undertaken

on 15 April. The recount confirmed that the Communists had received 60 mandates, one parliamentary seat short of the 61-seat supermajority required to elect the President. The Communists proceeded to form a new government. However, following several months of negotiations with the three opposition parties, the Communist Party twice failed to elect then-Prime Minister Zinaida Greceanîu to the presidency. As required by the Moldovan Constitution, parliament was dissolved on 15 June 2009 and fresh elections were called for 29 July 2009. Crucially, throughout this politically uncertain period, the ruling Communists fully upheld all provisions of the Moldovan Constitution pertaining to government succession.

A second set of parliamentary elections were held on 29 July 2009. International observers once again concluded that these elections largely met Moldova's democratic commitments, although they had again been marred by "subtle pressure, intimidation, misuse of administrative resources and bias in media coverage." The elections nevertheless resulted in a significant shift in popular support away from the Communist Party and towards the opposition parties. As a result, the Communist Party received only 48 seats while four opposition parties – the Liberal Democrats, Liberals and Our Moldova Alliance, now joined by the Democratic Party – together received the remaining 53 seats.

Those four parties went on to form a coalition government, the self-styled "Alliance for European Integration" ("AEI"). The AEI coalition partners in August 2009 elected Mihai Ghimpu from the Liberal Party as the Speaker of Parliament. According to the Moldovan Constitution, this entailed Ghimpu assuming the role of Acting President when President Voronin stepped down on 11 September 2009. The AEI Government was approved by parliament on 25 September 2009.

However, like the short-lived Communist Party government that was in power between April and June 2009, the AEI Government was unable to marshal the required 61-seat supermajority in parliament to elect their presidential nominee, the ex-Communist Marian Lupu, who defected to the Democratic Party following the April elections. An attempt by the AEI government to break the constitutional deadlock failed when a national referendum on amending the constitution to allow for the direct election of the president was held on 5 September, but failed to achieve the minimum 33.3 per cent turnout. Following the failed referendum attempt, Acting President Ghimpu dissolved parliament on 28 September 2010 and called a second set of early elections, scheduled for 28 November 2010.

Legal reforms and practical measures called for by the OSCE and Council of Europe were adopted in the aftermath of the July 2009 election. These measures resulted in an improvement in the electoral framework, particularly with regard to problems with the voters lists that had facilitated fraud. The second early election, held as scheduled on 28 November 2010, was deemed by international observers to have met most OSCE and Council of Europe commitments. While some procedural violations were noted, including ongoing problems with the voter lists, there was no systematic fraud.

Four parties crossed the four per cent threshold to enter parliament. The Communist Party once again won a plurality, with 39.3 per cent of the popular vote, to receive 42 mandates in parliament; the Liberal Democrats significantly increased their vote share, receiving 29.4 per cent of the vote for 32 seats; the Democratic Party made a

small gain to pick up 15 mandates; while the Liberal Party's support declined significantly, although their share of parliamentary seats only fell from 15 to 12. Our Moldova Alliance, which had been one of the four AEI coalition partners, failed to cross the four per cent threshold to enter parliament. While it is now possible for the AEI Government to be reconstituted on the basis of the Liberal Democratic Party, the Democratic Party and the Liberal Party, who together would enjoy a solid majority of 59 of the 101 seats in parliament, once again no configuration of parties that could realistically cooperate to form a government has been able to achieve the supermajority required to elect the president.

The Rule of Law

The rule of law is relatively weak in Moldova, and improving transparency and accountability and ensuring judicial independence have been key reform priorities for the AEI Government. The basic legal framework is adequate: the Constitution provides for an independent judiciary and the enabling legislation for the protection of judicial independence is largely in place. The Constitutional Court, which has exclusive authority in ruling on the constitutionality of all laws and decrees, is regarded as fair and independent. However, implementation of the laws and regulations 'on the books' remains a key challenge in Moldova, and politically and commercially motivated interference with judicial decision-making remains widespread.

Corruption remains a serious problem in Moldova, which scored 3.3 out of a possible 10 on Transparency International's 2009 Corruption Perception Index, placing it 89th out of 180 countries globally, on a par with Lesotho, Malawi, Mexico, Morocco and Rwanda. National surveys confirm the pervasiveness of corruption across all areas of business and social life, and SMEs report that corruption is a major obstacle to doing business, particularly in areas such as customs and imports, business licensing and registration and tax collection and inspections, as shown by the 2009 EBRD/World Bank Business Environment and Enterprise Performance Survey. Despite high profile anti-corruption programmes undertaken by both the former Communist government and the ruling AEI coalition, reducing corruption will require a level of sustained political commitment that has been difficult during the politically turbulent recent part.

Civil and Human Rights

The government of Moldova generally adheres to its Council of Europe and OSCE commitments to guarantee the protection of human and civil rights. The Constitution provides for freedom of speech and press, freedom of assembly, association, and religion, and these freedoms are generally respected in practice. The AEI Government is particularly concerned to strengthen the protection of civil and human rights in Moldova, and has made some important progress in this area.

Media freedom and independence, which were significant problems under the former ruling Communist Party, have improved considerably under the AEI Government. Reports from independent and investigative journalists of administrative interference in their journalistic work have declined significantly since mid-2009. Moldova currently has approximately 80 officially registered TV and radio channels, and two

major international media conglomerates have entered the local market in the past year. Moldova's printed media is diverse and offers a variety of political opinions. However, the printed media market is weak and independent newspapers work under constant commercial strain, which leaves them open to commercially motivated pressure from wealthy businessmen.

Moldova has a large, diverse and increasingly professional NGO sector committed to partnership with the government in tackling the country's political and reform challenges. While Moldovan NGOs face some financial constraints on their operations, the international donor community's significant presence in Moldova means that there is more financing available for NGO activities here than in most comparable CIS countries. The largest and most professional NGOs have a substantial input into, and impact on, government policymaking, often effectively filling gaps in the central government's professional and administrative capacity.

External Relations

The AEI Government has proven itself committed to the process of integration with its European and trans-Atlantic partners. Moldova's relationship with the European Union was formalised in February 2005 with the EU-Moldova Action Plan, which covered policy reforms in areas such as strengthening democratic institutions and the rule of law, independence of the judiciary, respect for human rights and fundamental freedoms including freedom of the media and of association, as well as business environment and structural reforms, trade and customs and human trafficking. The EU-Moldova Action Plan has since been superseded by Moldova's participation in the Eastern Partnership programme, although substantive progress within the Eastern Partnership context has been slow, in part due to the ongoing process of political deadlock in Chisinau.

Despite several attempts during the previous Strategy period to reinvigorate the Transnistria conflict negotiations, little substantive progress has been made. The OSCE's '5+2' negotiating framework – which includes Moldova, the Transnistrian "authorities," Ukraine, Russia and the OSCE, plus the United States and the EU as observers – remains the key international forum for the settlement talks, although bilateral negotiations have also taken place in parallel. The EU Border Assistance Mission, which has monitored and assisted with the enforcement of customs requirements on the Ukrainian border with Transnistria, has provided an important impetus for Transnistrian firms to register their import and export activities in Moldova, promoting the long-term normalisation of relations between the two societies.

ANNEX 2: ASSESSMENT OF TRANSITION CHALLENGES

The table below provides an overall Assessment of Transition Challenges rating for 2009 and 2005². Scores range from negligible, small, medium and large. “Negligible” means that the remaining challenges are minor and that the sector is well advanced in moving towards a well-functioning market economy. “Large” means that the remaining challenges are major and that this dimension of the sector is at an early stage of reform. The overall rating in 2009 is based on individual ratings for market structure and market-supporting institutions and policies (see methodology annex circulated separately). The 2005 overall rating is based on individual ratings for market structure, market supporting institutions and market behaviour. Due to changes in the methodology, made necessary by the evolving meaning of transition and the lessons of the financial crisis, comparison between the two overall scores should be made with caution.

| Moldova | Overall 2009 | Overall 2005 |
|------------------------------------|--------------|--------------|
| Corporate | | |
| Agribusiness | Medium | Large |
| General Industry | Large | Large |
| Property and Tourism | Large | Large |
| Telecom | Medium | Large |
| Infrastructure | | |
| MEI | Large | Large |
| Natural Resources | Medium | Medium |
| Power | Medium | Medium |
| Sustainable Energy | Large | Large |
| Transport | Large | Large |
| Financial Institutions | | |
| Banking | Large | Large |
| Insurance and financial services | Large | Large |
| MSMEs | Medium | Medium |
| Private equity and capital markets | Large | Large |

1. Assessment of Transition Challenges by Sector

1.1. Corporate

Agribusiness

Market structure: Medium

Institutions/policies: Medium

Moldova’s rating has improved as a result of price and trade liberalisation since 2005. Moldova’s trade regime with the EU has been further liberalised with the introduction of the Autonomous Trade Preferences (ATP) system in March 2008. Also privatisation has accelerated and a most agroprocessors are privatised, but with the exception of the wine sector restructuring and competitiveness improvements are slow. Processors still lack modern quality and hygiene standards and traceability of produce is at an early stage. Warehouse receipt legislation has been approved in early 2006, includes mandatory indemnity fund, funding of which is still under discussion, and the implementation has only slowly progressed. The Moldovan banking system is selective in financing primary agriculture or agro-processors due to scarce resources and, given the sectoral risks there is a decreased lending appetite given the current challenging environment. FDI to the sector (excluding the wine sector) is limited.

² The Office of the Chief Economist is preparing a new assessment of sector transition challenges included in the 2010 Transition Report, which was published in November 2010.

General Industry

Market structure: Large

Institutions/policies: Large

Moldova's general industry sector is largely private but there are some enterprises such as in the textile sector that are state-owned. The investment climate has been gradually improving over recent years, although significant challenges remain, particularly in the area of reducing administrative barriers to enterprise entry and exit. The National Agency for the Protection of Competition (NAPC), which was established in 2007, has now issued a number of important rulings, although there was a troubling lack of transparency and accountability in the consultation and decision-making processes in a number of cases against foreign-owned companies. Moldova's Competition Law still requires amendments to bring it into line with international best practice. The Law on Licensing Entrepreneurial Activity, which was intended to curb tax evasion, has been amended to permit SMEs to provide some services and trade most goods on the basis of the pre-existing simplified licensing regime. Significant challenges remain in improving productivity through increased efficiency and improving corporate governance and business standards.

Property and Tourism

Market structure: Large

Institutions/policies: Large

The property market is at early stages of development, and the shortage of quality commercial real estate assets in all sub-segments remains amongst most acute in the region. There is a lack of international strategic investors, market penetration with innovative construction technologies remains very low, and there is lack of long-term financing. The past few years have seen sharp rise in house prices, both sale prices and rents, especially in the capital city due to increased demand from foreign investors and higher remittances from foreign workers combined with inadequate supply. Most of the investors are local, inexperienced developers and many projects have been abandoned / interrupted due to incomplete financing. Real estate market development is supported by the completion of the First Cadastre project, which was completed in 2007 and included the development and implementation of a national unified real estate registration program for urban and rural land and the establishment of a system of clear and enforceable ownership rights. As a result, Moldova ranks better than its neighbours on ease of land registration. However, many obstacles remain with regard to the practical implementation of the legal framework. Land is fully tradable except for foreigners.

Telecommunication

Market structure: Medium

Institutions/policies: Medium

The regulator is independent and has sufficient investigation and decision power, but the sanctions it may impose are limited and the permitted fines are very low. The market was liberalised as part of the WTO requirements in 2004 and a number of alternative operators have commenced operations, although the incumbent, 100 per cent state-owned MoldTelecom, continues to dominate 97 per cent of the market. Number portability has not been introduced yet. Mobile penetration rates are low by the region's standards, but growing rapidly. Mobile services are offered by four operators, with an additional one, InterDnestrCom, in Transnistria. Both dial-up and

broadband Internet services are available, although broadband penetration rate is very low. MoldTelecom is the dominant broadband as well as dial-up Internet provider.

1.2. Energy and Infrastructure

Municipal and Environmental Infrastructure

Market structure: Large

Institutions/policies: Large

Municipal utility services are decentralised both in terms of ownership and decision making, with the exception of district heating in Chisinau. The larger utilities are organised as municipal enterprises (semi-corporatised) with *de jure* management independence, but *de facto* heavily dependence on the local administration. In smaller settlements, services are organised as part of the local administration and are yet to be corporatised. Financial and operational performance is generally weak and most if not all municipally-owned utilities are loss making. Cost inefficiencies (excessive employment, high energy use) need to be addressed, but demand side measures (metering) have started to be introduced in water and district heating. Private sector participation is confined to deregulated provision of urban transport. While the legal framework allows for cost reflective tariffs, this rarely happens in practice and tariff reform continues to be a substantial challenge, including the elimination of cross-subsidies. There is no requirement to make relations between utilities and municipalities more formal and transparent and in practice political interference is common. Similarly, tariffs are set at the municipal level and political interference is not uncommon.

Natural Resources

Market structure: Medium

Institutions/policies: Medium

The country is highly dependent on energy imports, mainly from Russia and Ukraine. Gas has replaced coal as the main fuel. It now constitutes 70 per cent of total primary energy supplies. Gazprom is the only gas supplier to Moldova and became the majority owner of Moldovagaz, the Moldovan gas monopoly, through a debt for equity swap. The company is vertically integrated and fully dominates the import, transmission and distribution of gas in Moldova. Conversely, the domestic oil products market is fully liberalised and is entirely served by private business entities which are licensed for the import and sale of oil products. Romania is the main supplier of petrol and a leading supplier of diesel, as the country does not have oil refining capacities. Market supporting institutions and policies need strengthening and the independence of the National Energy Regulatory Agency (ANRE) should be reinforced. Law enforcement and payment discipline are weak. Although end-user tariffs have been raised in line with increases in import gas prices, a proportion of the tariff increases is covered by central or local government subsidies. Transnistria continues to accumulate large debts to Gazprom.

Power

Market structure: Medium

Institutions/policies: Large

There has been no progress with unbundling or privatisation since the initial unbundling at the end of the 1990s into generation, transmission and distribution and the subsequent privatisation of three distribution companies to Union Fenosa of Spain

in 2001. The sector remains inherently nontransparent and marked by political interference in the regulatory process, but Moldova is now a serious candidate for membership of the Energy Community Treaty, which will involve harmonisation of legislation with energy sector EU acquis. Joining UCTE is also a serious objective. However, the transmission network, state-owned distribution companies (two of five) and generation plants (three, i.e. 100 per cent) are all in a dire state and urgently need investment. They are unstructured and do not operate on commercial principles. Privatisation attempts for these failed to attract investors. Further efforts are needed to reinforce the independence of the regulator, promote transparency and competition, and ensure full cost-recovery-based tariffs with adequate support to the poorest consumers. Until this situation improves, Moldova will continue to import at least 70 per cent of its power needs. While the market rules allow for direct contracting by suppliers with external sources, in practice it is difficult to get around the state-owned official importer: this needs to be improved. Energy losses declined in private distribution companies as a result of investment but remain high by international standards. The collection rates have improved and reached almost 100 per cent. End-user tariffs have been raised by the regulator according to a revised tariff methodology and broadly in line with increases in import prices. However, the application of these increases and the quality of the regulatory dialogue with regulated companies remains inadequate.

Sustainable Energy

Market structure/outcomes: Large

Institutions/policies: Medium

Moldova's parliament passed a law on Energy Conservation in 2000 and a law on Renewable Energy in 2009 but secondary legislation is still missing. Although an embryonic Energy Efficiency agency was established in 1994, it has not been functioning to date. Energy tariffs have been increased to cost recovery over the past few years and collection rates are high, providing higher incentives for energy savings. However, environmental costs are still not included in energy prices. Energy intensity remains very high and the country's renewable energy potential is underdeveloped. Moldova has signed and ratified the Kyoto Protocol as a Non-Annex1 party and has implemented four registered CDM projects. Remaining challenges are to further develop capacity for energy efficiency project implementation, design secondary legislation for renewable energy and project implementation, further develop climate change institutions, price incentives and project based approaches.

Transport

Market structure: Large

Institutions/policies: Large

In railways, operating and policy setting functions are not separated and core railway businesses (infrastructure, passenger, freight, etc.) are operated by the same entity. The Moldovan Railways have been operated with little commercial autonomy until late the 1990's, as tariffs are set by the government. After the railways accumulated significant debts and arrears, the government agreed to a restructuring plan. A sector restructuring plan was approved in 2008, which envisages unbundling of infrastructure and freight and passenger services. However, implementation is lagging behind and the sector remains inefficient. In roads, the authorities are now committed to implement a major restructuring plan (with help from a number of IFIs) and have

developed a comprehensive Transport Sector Strategy that envisages improvements in road sector financing and some restructuring of the road maintenance sector. However, to date there has been limited progress with the divestment of some construction companies. Road user charges are relatively high by regional standards.

1.3. Financial Institutions

Banking

Market structure: Medium

Institutions/policies: Large

The banking system has grown in recent years, although it remains small by regional standards. Bank legislation and supervision were significantly improved. Three banks are now majority foreign owned (Mobiasbanca, Eximbank and BCR Chisinau), some by reputable first tier banks. However, their market share is still relatively small at around 20 per cent of banking assets. The largest bank remains in public ownership, although plans to privatize it are progressing. The governance of some of the locally owned private banks requires further improvement. As in other countries of the region, the banking sector remains highly dollarized. While generally effective vis-à-vis individual institutions, bank supervision has yet to take into account concerns regarding system stability overall. Solid communication channels with the supervisors in the home countries of foreign-owned banks are also yet to be established.

Insurance and financial services

Market structure: Large

Institutions/policies: Large

Insurance legislation and regulation fall short of the IAIS standards. The supervisor is not a member of the IAIS and is perceived to have weak implementation capacity (for example, on-site supervision is not widely practiced). Insurance penetration is low (around 1 per cent of GDP). In April 2005 parliament adopted a leasing law. A dozen or so leasing companies have been established mostly by banks but the volume of transactions remains small and mostly confined to car leasing. Although the legal frameworks provides for private pension funds, the pension system is yet to undergo a major structural reform.

Micro, Small and Medium-sized enterprises

Market structure: Medium

Institutions/policies: Medium

Access to financing is limited, particularly for MSMEs. Borrowers complain of the short loan tenors which limit their ability to embark on long-term investment programmes and the high real interest rates which often make loan financing prohibitively expensive. Access to international capital markets is limited due to the small size (by international standards) of most firms and the unfavourable risk profile of the economy. Fostering the development of microfinance is particularly important in Moldova. Micro-finance institutions play an important role by financing small businesses generally deemed unattractive by commercial banks due to the high administration costs they entail and the lack of adequate collateral.

Private equity and capital markets

Market structure: Large

Institutions/policies: Medium

Securities legislation showed high compliance with the IOSCO principles, though effectiveness in implementation suffers from poor disclosure and transparency in information. A commercial private equity sector is yet to develop and to date the country has not attracted significant interest of international private equity funds. A challenging business environment, limited investment opportunities and poor exit prospects all conspire against this sector.

ANNEX 3: ENVIRONMENTAL AND SOCIAL DEVELOPMENT

Environment

The Constitution of the Republic of Moldova provides the right to a healthy environment. The country is moving towards European integration and is part of the EU Neighbourhood Programme, which includes discussions on harmonisation of law, including environmental law. An EU-Moldova Association Agreement started negotiations in January 2010 and Moldova is currently working on an EU-Moldova Action Plan.

The Moldovan government has ratified 18 International Environmental Conventions, including the UNECE Aarhus and Espoo Conventions. A sub-regional workshop was held on the Espoo Convention in Chisinau in 2008. A workshop on the Access to Justice component of the Aarhus Convention included Moldova in 2007. Moldova has developed action plans to deal with the implementation of many of the conventions, although progress on them is restricted, because of financial implications.

The three most significant environmental problems Moldova faces are 1) water quality, 2), soil degradation, and 3) loss of biodiversity.

Moldova has a serious problem with water quality, and two river systems, the Nistru and Prut, account for approximately 90 per cent of total surface waters in the country. The rivers reaching Moldova are relatively good quality but within the country, become moderately polluted, and can be highly polluted in some industrial areas. These rivers account for a significant amount of the potable water supply in Moldova, but do not pass quality standards in many cases, showing the presence of heavy metals, ammonia and nitrates significantly over the allowable limits. Sources of water pollution are primarily from agricultural and industrial use and storage. The quality of both surface and groundwater poses serious threats to human health. In addition, the water supply and sewerage infrastructure is in poor condition, and in some areas where it has been installed, is not functioning. Moldova's rural population does not have access to these services, and smaller towns are also often not connected.

Approximately 75 per cent of land surface is used for agriculture, and the environment suffers from the heavy use of agricultural chemicals, and poor farming methods (e.g., lack of crop rotation, use of agricultural chemicals), which have caused widespread soil erosion and reduction in soil quality. The amount of irrigated land has reduced, which has resulted in lower food production and employment, and increased salinity.

Air quality in urban areas is a significant problem. Management of waste is also a problem, as regulated landfills become overloaded and significant amounts of waste are dumped illegally.

With regard to biodiversity, Moldova has a significant number of protected species. The two main river systems have been altered significantly by dams and hydropower, and this has altered the natural wetlands and floodplains. Approximately 1.5-2 per cent of land is protected. Illegal forestry is a problem in rural areas.

Reporting and transparency

Moldova has a required reporting on environmental issues, based on the national environmental legislation (toxic waste, discharges, solid waste, atmospheric

emissions, etc.). A report on the state of the environment is published annually in Romanian and English and posted on the Ministry's website www.mediu.gov.md.

The Environment Ministry has established a Centre for Communications with the Media and the Public. An Aarhus Centre for environmental information has been open for 9 years, funded by the Danish Government, and receives over 2,000 visitors a year to review information. A significant amount of work has been done on increasing public awareness on environmental issues. A number of public initiatives have been implemented with regards to water, greening the environment, public transport, and environmental education.

Labour

Moldova is a member of the ILO and has ratified all eight core conventions but enforcement remains weak due to an insufficient number of inspectors and resources available. Discrimination in the work place on grounds of gender, ethnicity and sexual orientation are risk areas. Roma are subject to discrimination in employment are often refused interviews.

The ILO agreed a Decent Work Country Programme (DWCP) with Moldova for the years 2008-2011, updating the 2006-2007 DWCP. The 2006-7 programme helped develop a long-term national employment strategy and plan of action, established a system of child labour monitoring in 5 pilot areas and creation of a Child Labour Monitoring Unit within the labour inspectorate. Trade Unions were also trained in OSH areas. The 2008-2011 DWCP focuses on harmonisation with the EU. Other objectives include the development of a system to manage labour disputes, developing policies and legislation to address the problems of labour migration, human rights, and combating trafficking in human beings, and improving the effectiveness of social protection with a special focus on vulnerable groups.

Occupational Health and Safety

Occupational Health and Safety (OHS) is a right under the 1994 Constitution of the Republic of Moldova (Article 43) and in the Law on Labour Protection (1991). The law covers the definition of labour protection, the right to work, and participation of public organisations in decision-making regarding labour protection. It also covers the responsibility of ministries and local administration and inspectorates.

In addition to the Ministry of Labour and Social Protection's role, the Ministry of Health establishes occupational health norms, mandatory for all enterprises and carries out monitoring. In 2005, the Ministry of Economy and Trade was given the responsibility to coordinate the activity in the field of labour protection, including issuing labour protection regulations and managing the Labour Inspectorate.

The laws cover occupational disease, accident prevention, social and accident insurance, life insurance, training, protective equipment, accident reporting. They also cover requirements on buildings and facilities open to the public regarding sanitation and disease prevention. Each employer must develop an Activity Plan for labour protection based on a workplace risk assessment and this is updated on an annual basis. If there is a collective labour contract, the Activity Plan will be part of the contract.

While the Labour Code is an important step, the ILO review of the Code in 2007 showed that it does not fully comply with international and European norms in the respective field, in particular with the framework *European Directive 89/391/EEC*

on Safety and Health at Work. More regulations are needed in such areas as identifying occupational hazards, reducing exposure, risk assessment, surveillance and monitoring, notification and reporting, and labelling hazardous substances. Current regulations exist for providing protective equipment and working time limits. As part of the harmonisation process, Moldova has stated their intention to transpose the EU Directives on OHS, although this process had not yet begun in 2007.

The ILO recommends that Moldova elaborate a National Plan on OSH and a series of legislative and normative acts to regulate OHS. Moldova signed a Memorandum of Understanding with the ILO from 2004-2009 and has developed initiatives in OHS in the agricultural sector, and to implement the ILO Convention on the elimination of worst forms of child labour. Initiatives on combating child labour and social exploitation of children, including child trafficking, were supported by the US, German, and Norwegian governments. Awareness-raising inspections have been carried out by the Labour Inspectorate in the construction sector, construction materials industry, agriculture, and industry. Results of these inspections were made available to management, authorities, and the public was informed about the causes of occupational accidents through the media.

In 2007, Moldova became a party to the European Agreement supplementing the Convention on Road Traffic, which focuses on reducing road accidents.

NGOs

According to the Moldova government's report to the Aarhus Convention in 2008, approximately 500 national and international voluntary associations are registered in Moldova that are involved in environmental protection, education, etc. The Regional Environmental Centre in Moldova, co-founded by the European Commission, has been operational since 1999, and World Bank runs programmes, such as the Civil Society Fund Programme (CSF), which provides grants to NGOs and community-based organisations. They work on issues like social inclusion and support consultation and engagement of vulnerable groups. Between 1997 and 2009, the CSF in Moldova supported 112 projects, with a total of approximately USD 480,000.

Other Institutions

World Bank has several environmental programmes in Moldova through the Global Environmental Facility (GEF). One programme focuses on preparing a Wetlands and Biodiversity Conservation Project to improve the habitat and water quality of the Nistru River. Another Biodiversity Strategy Development Project will assist Moldova in implementing part of the Convention on Biological Diversity relating to environmental protection, in a participatory process with NGOs and the public.

Since 1994, the GEF has invested almost USD 24 million, with a similar amount in co-financing, into 15 projects (5-biodiversity, 5-climate change, 2-international waters, 1 in persistent organic pollutants, and 1-multi-focal project) primarily led by World Bank and UNDP. In addition, Moldova has participated in 17 regional GEF projects, such as international waters projects for the Danube River and the Black Sea.

World Bank has also held capacity-building workshops in Chisinau in 2009 on Climate Change Adaptation in Agriculture and has been working with the government on a National Climate Change Strategy.

UNDP has also been working on climate change and in the 2009/2010 National Human Development Report *Climate Change in Moldova: Socio-Economic Impact*

and Policy Options for Adaptation, it warns that Moldova is likely to be significantly affected by climate change, which could have hotter, drier summers affecting the agriculture and infrastructure, such as roads, and wetter winters. Moldova's surface water supplies, according to the report, could decrease 16-20 per cent. Given Moldova's dependence on agriculture, this affect could be devastating, and the example of the 2007 drought is given that caused USD 1 billion in losses in Moldova. The report recommends that Moldova develop a comprehensive National Climate Change Adaptation Programme, including an action plan and communication strategy.

Social Issues

The population of 3.6 million has continued to decline at a rate of -1.4 per cent, but at not such a severe rate as in 2003 when it was almost at -2 per cent.

Moldova ranks 117th out of 182 countries, on the UNDP's Human Development Index, a composite measure of life expectancy, education and standard of living. This is slightly lower than in 2007, when it ranked 114th. Between 1999 and 2004, Moldova's economic recovery enabled 40 per cent of the population to move out of poverty and it continued to decline up until 2007, all be it a slower rate. The poverty level increased again in 2008, even before the full impact of the crisis was felt. Poverty is expected to increase further in 2010, due in part to the fall in remittances by 29 per cent in 2009.

More than 25 per cent of the economically active population has left the country in search of improved economic opportunities abroad. A significant number of these are highly skilled and educated. However, since the beginning of the crisis, it has been more difficult for these economic migrants to retain a job in the receiving countries and continue to send money back home. Prior to the crisis, the significant inflow of workers' remittances (averaging 31 per cent of GDP between 2004 and 20-08) had fuelled an increase in the rate of consumption and private investment, especially in the residential property sector. In 2007, US\$1,498 million were sent as remittances to Moldova. The average remittance per person was US\$ 395, as compared to with the average of Central and Eastern Europe and CIS of \$US114.

Gender Issues

With an index of 0.719, Moldova ranks 97 out of 182 countries with respect to its gender development index, as compared to its human development index rating where it ranks 117. The continuing high levels of poverty and unemployment and a growing urban-rural divide, have had a negative effect upon gender equality, with the socio-economic status of women particularly deteriorating in rural areas.

Women's employment rate is 37.7 per cent as against 42.6 per cent for men. The percentage of women in employment declined by one per cent more for women during the period 2008-9. The difficulty for women to find meaningful employment, exclusion from traditionally male dominated sectors and a concentration in lower paid sectors is considered to be one of the principal causes of female poverty and one of the root causes of both emigration and trafficking. In addition, in general, women have been disproportionately affected by economic restructuring. Most vulnerable to poverty are women in rural areas, female headed households and women from ethnic groups, particularly the Roma. Furthermore the lack of adequate social services has affected women's ability to advance in the workplace. Public childcare services are scarce and private child care services are prohibitively expensive for most families.

There have been some positive developments during the transition period with respect to gender equality, especially since the election in 2005, with the adoption in February 2006, of the “Law on Ensuring Equal opportunities for Women and Men”. Women now represent over 21 per cent of seats in the national parliament, as compared to 3.8 per cent in 1990. After the local elections in 2007 the number of female mayors increased by 3 per cent (as compared to 2004). Women now represent 26.5 per cent of all councillors in village councils. UNIFEM together with SIDA have been implementing a programme to promote gender equality which has resulted in the development of a national strategy to promote Gender Equality and advancement of women’s welfare. This has provided the basis for a review of the national Labour Code with the aim of progressing gender equality in the labour market.

[Sources:]

UN http://www.un.md/key_doc_pub/doc/CCA_Eng_last.pdf

UNECE: Aarhus, Espoo Convention documents, including country report prepared by Moldova, http://unece.org/env/documents/2008/pp/mop3/ece_mp_pp_ir_2008_mda_e.pdf

ILO: field report on Occupational Health and Safety in Moldova (not published)

GEF: http://www.gefweb.org/uploadedFiles/Evaluation_Office/Ongoing_Evaluations/CPE-Moldova_TOR_Final.pdf

UNDP: Climate Change Adaptation: http://www.undp.md/publications/2009NHDR/NHDR_eng_full.pdf

EU: EU Accession Strategy, European Neighbourhood Policy Action Plan

ILO Decent Work CPs: www.ilo.org/public/english/bureau/program/dwcp/download/moldova.pdf

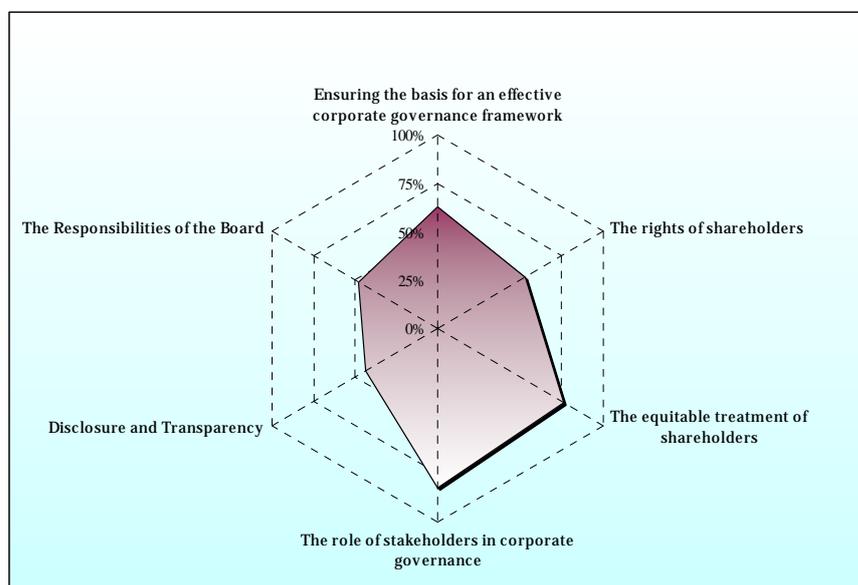
ANNEX 4: COMMERCIAL LAWS OF MOLDOVA

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, secured transactions and telecommunications. In 2010, assessments will be conducted for the first time in the judicial capacity and procurement focus areas. The existing tools assess both the quality of the laws “on the books” (also referred to as “extensiveness”) and the actual implementation of such laws (also referred to as “effectiveness”). All available results of these assessments can be found at www.ebrd.com/law. This annex presents a summary of the results for Moldova, accompanied by critical comments from the Bank’s legal experts who have conducted the assessments and other research in the relevant areas.

Company Law and Corporate Governance

The Law on Joint Stock Companies (“JSC Law”) is the principal act regulating corporate governance in Moldova. The JSC Law was adopted in 1997 and amended several times since then. A Code of Corporate Governance was adopted by the National Commission of Financial Market in June 2007. The Code includes a set of voluntary recommendations to be adopted by companies under the mechanism “comply or explain”. There is no available information on the companies’ compliance with the code.

Quality of corporate governance legislation – Moldova (2007)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to OECD Principles of Corporate Governance. The fuller the ‘web’, the more closely the corporate governance laws of the country approximate these principles.
Source: EBRD Corporate Governance Sector Assessment, 2007 assessment

According to the results of the EBRD’s 2007 Corporate Governance Sector Assessment³ (see chart above) under which the quality of corporate governance legislation in force in November 2007 was assessed, Moldova was found to be in “medium compliance” with the OECD Principles of Corporate Governance, showing

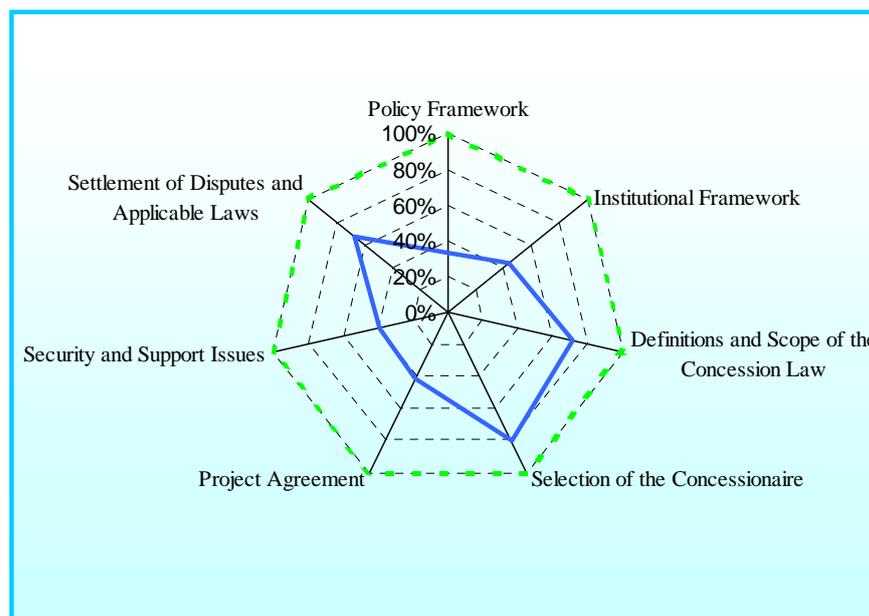
³ For more information on the assessment see: <http://www.ebrd.com/country/sector/law/corpgov/assess/index.htm>

some flaws especially in the “Disclosure and Transparency” section. When considering the effectiveness of corporate governance legislation, the 2005 EBRD’s Legal Indicator Survey⁴ revealed that there are a number of legal avenues for a minority shareholder to request disclosure or seek redress in Moldova. Their effectiveness, however, is limited by the complexity, the length of procedures and the difficult enforcement. Moreover, the institutional environment is weak in many respects: company books are not fully reliable and statutory auditors are unlikely to be independent from the company’s management. The legislator should carefully assess the compliance of national legislation with international standards and consider improving both the framework and the capacity of institutions in effectively implementing the legislation.

Concessions

Moldova has adopted a special Concessions Law in 1995. Under the Concessions Law (as amended), any local or foreign company or individual, save for a state or a municipal entity, may be a concessionaire. A concession arrangement may exist in any sector and in relation to any activity to the extent that it does not violate the laws of Moldova.

Quality of concession legislation – Moldova (2008)



Note: the extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the ‘web’, the more closely concessions laws of the country approximate these standards.

Source: EBRD Concessions Sector Assessment 2008

The scope of application of the Concessions Law and the rules regulating the selection procedure are clear. The concession definition refers to the notion of "risk" as an element of the concession agreement. This helps addressing possible uncertainties with regard to risk allocation. In addition, the Moldovan Concessions Law is one of the few laws in the region that expressly refers to the grantor’s participation in concession company’s bodies. Overall, pre-selection procedure rules are fair and allow limited grounds for direct negotiations. The concessionaire’s right to

⁴ For more information on the Legal Indicator Survey see: <http://www.ebrd.com/country/sector/law/corpgov/lis/index.htm>

compensation is provided for by means of court procedures. The law, however, does not provide expressly for international arbitration but allows the parties to envision an international arbitration clause in their concession agreement. A clear shortcoming of the Concessions Law is that any transfer by a concessionaire of concession assets or rights is prohibited. This statutory restriction inevitably limits financing options. In addition, there are insufficient mechanisms allowing the unsuccessful bidders to seek review of the contracting authority's acts or failures to act. The fact that the Concessions Law allows the concession granting authorities to unilaterally change the terms of a concession agreement on certain specific grounds listed in the Concessions Law may also give rise to concern. Finally, the grounds for termination are vague.

In terms of its concession legal framework, Moldova has not made much progress in its compliance with international best practices since 2007. The EBRD's 2008 Concession Laws Assessment (see chart above), which examined the laws on the books, rather than how they work in practice, revealed that Moldovan laws were in "medium compliance" with internationally accepted standards in this sector. In sum, in order to create a clearer, more flexible and more stable legal framework for concessions, future amendments may be required.

Finally, it should be added that in 2008 the Law on Public-Private Partnerships (PPP) has been adopted. This law establishes the general framework for initiation of PPP projects and the procedures for competitive selection of the private partner. The law facilitates the private sector's access to public infrastructure works and public service projects in a variety of sectors, including energy, transport, municipal utilities and business infrastructure. The current PPP legal framework in Moldova expands the autonomy and the decision-making power of the local public authorities, eliminates administrative hurdles to private sector investments and to a large extent encourages the development of PPPs in the country.

Insolvency

Bankruptcy and insolvency in Moldova are governed by the Law on Insolvency of the Republic of Moldova (2001, as amended) (the "Insolvency Law"). The law received an overall score of "medium compliance" in the EBRD's 2009 Insolvency Sector Assessment, which measured the extent to which insolvency legislation in the EBRD's 30 countries of operations meet international standards.

While many of the features in the Insolvency Law are of high quality, the 2009 assessment result is somewhat lower than the "high compliance" score that the Insolvency Law received in the EBRD's 2003 assessment. As evidenced by the EBRD assessment, the Insolvency Law's provisions for dealing with creditors and commencing proceedings are strong, but provisions for dealing with estate assets and reorganisation would benefit from improvement and contributed to the overall reduction in score.

It should be noted, however, that certain amendments to the Insolvency Law that took effect after 1 January 2009 were not part of the 2009 Sector Assessment, and as such the Insolvency Law may, if reconsidered with the most recent amendments, achieve a different result in future assessments.

As noted above, the Insolvency Law has a number of strengths. The criteria for commencing proceedings are adequate, although such provisions would benefit from clarification as regards the financial condition required to establish a debtor's insolvency. The law provides for an automatic stay of some actions against the debtor once insolvency proceedings have begun and also for notification of all parties that proceedings have commenced. As to the latter, however, the Insolvency Law would be improved by inclusion of provisions for notification of creditors individually. Priority of payment of creditors' claims is also clearly spelled out in the law.

There is significant room for improvement in the areas of reorganisation and for dealing with estate assets, however. Provisions relating to estate assets currently lack any requirement that either the debtor or third parties safeguard or deliver estate assets in their possession to the insolvency administrator (also known as a trustee), or even for third parties to make information about such assets available to the administrator. Such omission leaves open the danger that estate assets may be transferred, destroyed or hidden from the administrator and thus made unavailable for payment of creditor claims. Reorganisation provisions are similarly inadequate, in particular because there is no provision for independent analysis of a proposed plan of reorganisation, no requirement that a plan comply with minimum protective requirements, and no restriction on voting on a reorganisation plan by connected parties.

The 2009 EBRD Assessment also reveals that the legislative framework relating to insolvency administrators is extremely weak and should be addressed. For Moldova, the analysis revealed that the Insolvency Law is in "very low compliance" with international standards in this area. For example, the law would be strengthened by a requirement that an administrator undertake an educational course or examination in insolvency law and by provisions relating to the registration or licensing of insolvency administrators. Further, there are no provisions for standards of professional or ethical conduct or for any regulatory or disciplinary functions in respect of administrators who fail to perform adequately.

Judicial Sector

The Moldovan judiciary comprises courts of general jurisdiction at first and appellate instances, as well as a Supreme Court of Justice and a Constitutional Court. Specialised courts exist with jurisdiction over economic matters; a first instance economic court hears matters concerning commercial matters, broadly defined, whether involving corporate entities or individuals. Appeals lie to the Economic Court of Appeal in Chisinau, and thereafter cassation appeals may be heard by the Supreme Court of Justice.

Judicial administration is conducted by the Superior Council of Magistracy (SCM), an independent body with responsibility for nominations for judicial appointments, disciplinary matters and the preparation of a draft court budget. The majority of the SCM's members are judges, although the number of judges on the SCM has recently been reduced. Most judges are appointed by the President based on recommendations by the SCM for an initial term of five years, at the end of which they are eligible to be reappointed to serve until they reach the mandatory retirement age. Judges undergo compulsory initial training through an 18 month programme, as well as 40 hours a year of continuing judicial education.

There is a widespread belief that the judiciary is beset by corruption and political interference. Court proceedings are often not held in public, and public access to judicial decisions and case files remains limited. The perception of corruption is reflected in the EBRD–World Bank Business Environment and Enterprise Performance Survey 2008-2009 (BEEPS), where only 32 per cent of surveyed business respondents considered that the courts are fair, impartial and uncorrupted. Measures have recently been taken to counter corruption. A new code on judicial ethics came into effect in early 2008, and judges received substantial training on the Code's content and implementation. Furthermore, the number of disciplinary proceedings against judges has risen in recent times, and the outcomes of such proceedings are made public.

A further challenge for the court system is the substantial backlog of undecided cases. Procedural difficulties slow the clearance rate, such as delays caused by adjournments and judicial reluctance to strictly enforce procedural deadlines. BEEPS data indicates that only 24 per cent of respondent businesses consider the court system to be quick.

Public Procurement

Public procurement in Moldova is regulated by Public Procurement Law Nr. 96 adopted on 13.04.2007 (the PPL), which covers only national state and local government procurement. Utilities and state-owned companies are not covered at all.

Moldova's public procurement legal framework has been modelled on the EU Directive 2004/18/EC on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts, however in a selectively way. Several important elements of the EU legislation have not been implemented.

The PPL provides for tendering and negotiated procurement procedures, direct agreement, and central purchasing. Framework agreements and electronic purchasing are also incorporated, however electronic communication and data transmission is not mandatory and its availability depends on the decision of the contracting entity.

Open and restricted tendering are default procurement methods. Unfortunately, the PPL does not provide a distinction between eligibility rules and tenderers' qualification criteria.

The eligibility rules would be in line with international good practice, if not for the domestic preferences.⁵ The public procurement contract notices and tender documents are not available on the Internet, and neither are the procurement records. Tender documents come at a price. Contracts are typically awarded every 12 months on the lowest price basis, but the most economically advantageous offer award criteria can also be used. The PPL makes no distinction between the rules for lower and higher-value procurement – there is no simplified procedure for a low value contracts. The public procurement procedures are rather complex and very inflexible. The PPL does not regulate contract choice or management; there is no requirement for contracts to

⁵ Domestic preferences it is an instrument to limit the tender's participation to the local companies.

reflect a best available business practice. The remedies system is simple but ineffective. In general, the Moldovan public procurement legal framework is bureaucratic, and hardly accountable.

Secured transactions

Security over movable assets is governed by the Law on Pledge of 30 July 2001, which entered into force on 1 November 2001. It was partly prepared with the assistance of the EBRD, GtZ and others, and was aimed at dealing with a number of concerns and deficiencies identified through the use of the 1996 Law.

After quite convoluted efforts, in 2002, the government approved an Order on The Register of Pledged Movable Assets and Regulations on the Register providing more detailed rules on the functioning of a new register and the registration procedure. The registry is operated by the Ministry of Justice and entries are made at notary offices. Although the system could be improved, it is working in practice and users are generally satisfied.

The biggest drawback seems to be the enforcement of the security. The time needed to enforce the security and the return on proceeds and steps involved are reported to be unsatisfactory. It seems that courts and bailiff system are not well equipped for handling the process and there are reported problems of corruption.

Security over immovable assets is governed by the Law on Mortgage of 2 September 2008, which was developed by the Ministry of Economy and Commerce with EBRD assistance. The main goal of the reform was to consolidate under one single law all provisions concerning mortgage, which often resulted in contradictory, unclear and incomplete provisions. The reform also aimed to remove the numerous impediments for the development of the primary mortgage market and to establish the basic framework for the refinancing of mortgage creditors, including issuing mortgage securities (secondary mortgage market) as and when the international markets will stabilise and a critical mass of mortgages will be accumulated in the Moldovan banking sector. The key features are as follows:

- The Law provides that mortgage lending can be undertaken by any institution, as long as it is properly regulated;
- The Law significantly expands the range of obligations that can be secured by a mortgage (including future loans);
- The Law establishes a new regime for mortgage over future and unfinished buildings that should contribute to expanding the financing possibilities for property developers, as well as individual property buyers;
- The Law removes the technical impediment preventing the simultaneous/subsequent registration in the Cadastre of title transfer and mortgage right over the same property, which will facilitate the financing of property purchase;
- The mortgage enforcement procedure is streamlined to offer more security to both mortgagor and mortgagee. The parties also may agree on voluntary enforcement of mortgage (as opposed to court-led process), saving time and money to both parties;
- The Law requires the property to be mortgaged to be independently evaluated and fully insured for the length of the mortgage, in accordance with the

tections provisions, based on EU Voluntary Code of Conduct for Mortgage Lending, applicable when the borrower is a consumer. In addition the confidentiality of the borrowers personal data is protected by the new law;

- The Law will allow the Moldovan provider of mortgages to apply the EBRD’s List of the Minimum Standards and Best Practices for Mortgage Lending.

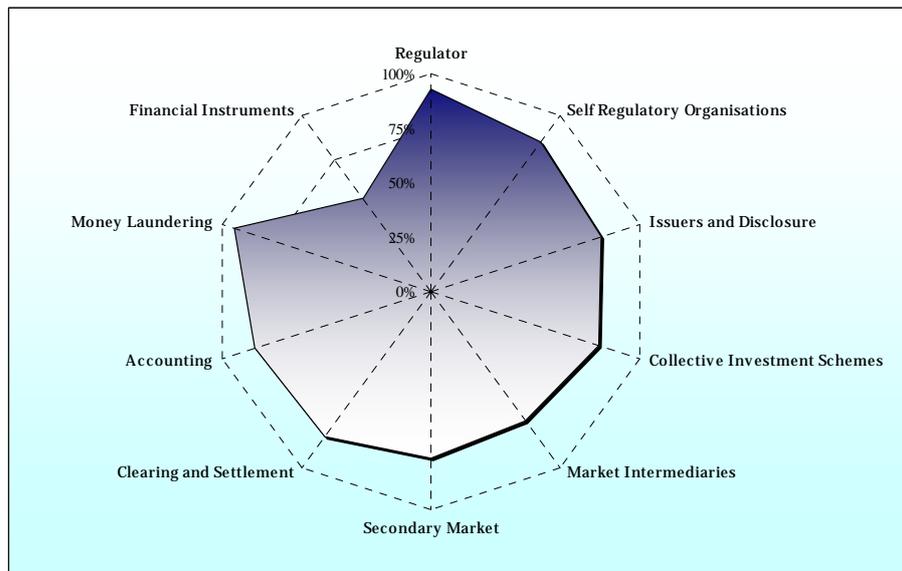
Unfortunately, the adoption of the Law coincided with the on-set of the credit crisis, which has resulted in the mortgage market pretty much freezing. So the Law has not been tested and used as much as it was expected.

Securities Markets

The principal laws governing securities markets in Moldova are the Law on the Securities Market (“SML”); the Law on the Joint-Stock Companies (“JSC Law”); and the Law on the National Commission of Financial Market (“NCFM Law”).

The SML, issued in 1999, as amended, regulates the issue, trade and circulation securities; names and defines the professional activities on the securities market and sets forth the basic rules of disclosures and reporting by the listed companies. The JSC Law, issued in 1997, as amended, along with the relevant chapter of the Civil Code, sets out the rules of establishment, functioning and dissolution of the joint-stock companies; the duties and responsibilities of their governing bodies, and the rules of entering into qualified transactions. The NCFM Law, issued in June 2007, establishes the supervisory authority of the regulator.

Quality of securities market legislation – Moldova (2007)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in IOSCO’s *Objectives and Principles for Securities Regulations*. The fuller the ‘web’, the closer the relevant securities market legislation of the country

approximates these principles.

Source: EBRD Securities Market Legislation Assessment 2007

The supervision of Moldova’s financial market is divided in two sectors: banking is supervised by the National Bank, while the non-banking financial sector is regulated,

supervised and controlled by the National Commission of Financial Market (which replaced the Moldova Securities Commission in 2007). The National Commission of Financial Market's authority extends to the securities markets, insurance market, savings and lending organisations, microfinance organisations, private pension funds and credit history offices.

In 2007, the EBRD benchmarked the securities markets legislation of Moldova against the "Objectives and Principles of Securities Regulation" published by IOSCO. The assessment⁶ showed that national securities markets legislation is in "high compliance" with international standards (see chart below). In order to understand how securities markets legislation works in practice, in the same year the EBRD undertook a Legal Indicator Survey⁷ asking practitioners in the region to comment on a hypothetical case study. The Survey concentrated on effectiveness of prospectus disclosure requirements, private and public enforcement mechanisms and authority of the market regulator. The Survey revealed that IPOs are not common in Moldova. The prospectus is not comprehensive and lacks essential information on consolidated financial disclosure, disclosure of the beneficial owners of the existing shareholders, and disclosure of the related party transactions. Private enforcement mechanisms allow for some course of action but they are generally lengthy and can be burdensome. Finally the capacity of courts, regulator and prosecutors in investigating complex securities cases need to be improved.

Telecommunications

The electronic communications sector (the "Sector") in Moldova is currently governed by the Law on Electronic Communications of 2007 (the "2007 EC Law") and is regulated by the National Agency for Regulation in Electronic Communications and Informatics (ANRCETI). ANRCETI is responsible for licensing, establishing interconnection principles and rules, allocating radio frequencies, settling disputes between operators and general regulatory implementation. ANRCETI was established in March 2008 in accordance with the 2007 EC Law. The policy maker for the sector is the Ministry for Information Development. The 2007 EC Law moves the legal framework for the Sector a significant way towards harmonisation with relevant European Union standards. Intensive work is understood to be underway to implement this law in all key areas of the framework.

Further development of the Sector has been kick-started by the introduction of the 2007 EC Law and renewed efforts by ANRCETI at implementation of an EU reflective regulatory framework based upon that law. Work is now underway to implement that framework with market assessment currently being conducted to determine dominance in Sector sub-markets. Number portability, interconnection, local-loop unbundling and universal service are also key areas of focus for ANRCETI at present. Implementation of a modern electronic communications framework is a long term endeavour, requiring meaningful commitment from Government in terms of the fullest support for the regulatory process and implementation of modern competition safeguards such as number portability, carrier selection and network

⁶ For more information on the assessment see:

<http://www.ebrd.com/country/sector/law/capital/assess/index.htm>

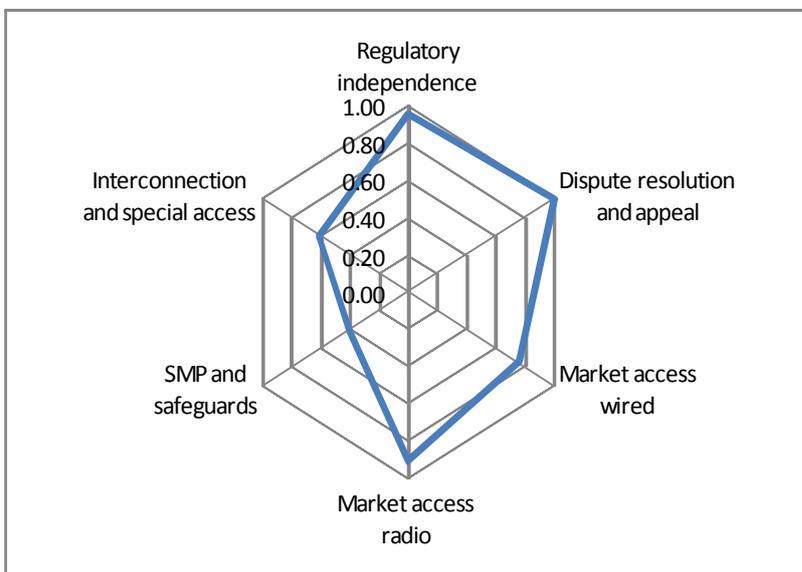
⁷ For more information on the Legal Indicator Survey see:

<http://www.ebrd.com/country/sector/law/capital/survey/index.htm>

access. The Government has displayed commitment in terms of changes to the law and initial support for ANRCETI, but the substance of their commitment has yet to be determined. The continuing dominance of state-owned MoldTelecom (MT) seriously hinders Sector development, particularly in an era of the renewed importance of fixed-line for broadband roll-out. The Government is understood to be currently developing a detailed strategy for the sector. If the Government is serious about maximising the benefits that the Sector can bring to Moldova and its citizens, that strategy should include serious plans to modernise MT and resolve the conflicts inherent in state ownership and commitment to a modern, private-sector led, liberalised Sector environment.

In a 2008 assessment of the communications sector of EBRD Countries of Operation (see chart above) the sector regulatory regime in Moldova was deemed to have “Medium Compliance” when measured against international best practice⁸.

Quality of telecommunications regulatory frameworks – Moldova (2008)



Note: The diagram shows the combined quality of institutional framework, market access and operational environment when benchmarked against international standards issued by the WTO and the European Union. The extremity of each axis represents an ideal score of 100 per cent, that is, full compliance with international standards. The fuller the “web”, the closer the overall telecommunications regulatory framework of the country approximates these standards.

⁸ For further detail see <http://www.ebrd.com/country/sector/law/telecoms/assess/index.htm>

ANNEX 5: LIST OF SIGNED PROJECTS

| Sector | Name | Private / State | Instrument Type | EBRD Finance | | | Operation Stage | Undrawn Commitment | | | Year of Signing | |
|------------------------|---|---|-----------------|--------------|--------|-----------|-----------------|--------------------|-----|------|-----------------|------|
| | | | | Debt | Equity | Portfolio | | Operating Assets | | | | |
| Financial Institutions | | | | Euro million | | | Euro million | | | | | |
| Bank Equity | Victoria Bank | PRIVATE | Equity | 0.2 | 0.0 | 0.2 | Disbursing | 0.2 | 0.0 | 0.2 | 1997 | |
| | Victoria Bank Capital Increase | PRIVATE | Equity | 0.2 | 0.0 | 0.2 | Disbursing | 0.2 | 0.0 | 0.2 | 1997 | |
| | Moldova-Agroindbank Senior Convertible Loan (debt & equity) | PRIVATE | Debt & Equity | 8.3 | 6.5 | 1.8 | Completed | | | | 1998 | |
| | Victoria Bank Capital Increase II | PRIVATE | Equity | 0.2 | 0.0 | 0.2 | Disbursing | 0.2 | 0.0 | 0.2 | 1999 | |
| | Mobiasbanca | PRIVATE | Equity | 3.4 | 0.0 | 3.4 | Disbursing | 3.4 | 0.0 | 3.4 | 2008 | |
| Bank Lending | Victoria Bank | PRIVATE | Debt & Equity | 3.5 | 3.3 | 0.2 | Repaying | | | | 1995 | |
| | Mold Agro Ind Bank Credit Line (MAIB) | PRIVATE | Debt | 15.5 | 15.5 | 0.0 | Completed | | | | 1995 | |
| | Victoriabank Credit Line (II) | PRIVATE | Debt | 3.3 | 3.3 | 0.0 | Completed | | | | 2001 | |
| | Moldagroindbank Credit Line (MAIB) (II) | PRIVATE | Debt | 4.9 | 4.9 | 0.0 | Completed | | | | 2002 | |
| | Victoria Bank Credit Line III | PRIVATE | Debt | 3.3 | 3.3 | 0.0 | Completed | | | | 2003 | |
| | Moldindconbank Credit Line (MICB) | PRIVATE | Debt | 1.2 | 1.2 | 0.0 | Completed | | | | 2004 | |
| | Mobiasbanca SME Credit Line | PRIVATE | Debt | 1.6 | 1.6 | 0.0 | Completed | | | | 2004 | |
| | MCFE - Victoria Bank Full Recourse Portion | PRIVATE | Debt | 1.2 | 1.2 | 0.0 | Completed | | | | 2004 | |
| | Banca Sociala - Credit Line for SMEs | PRIVATE | Debt | 5.0 | 5.0 | 0.0 | Repaying | 1.2 | 0.1 | 1.1 | 2005 | |
| | MCFE - Mobiasbanca Full Recourse Portion | PRIVATE | Debt | 2.2 | 2.2 | 0.0 | Repaying | 0.2 | 0.0 | 0.2 | 2005 | |
| | Mobiasbanca Credit Line II | PRIVATE | Debt | 2.4 | 2.4 | 0.0 | Repaying | 1.5 | 0.0 | 1.5 | 2006 | |
| | Banca Sociala - Credit Line for SMEs (II) | PRIVATE | Debt | 5.4 | 5.4 | 0.0 | Repaying | 3.8 | 0.0 | 3.8 | 2007 | |
| | Eximbank - Credit Line | PRIVATE | Debt | 16.3 | 16.3 | 0.0 | Disbursing | 15.3 | 0.0 | 15.3 | 2008 | |
| | MCFE - Banca Sociala Full Recourse Loan | PRIVATE | Debt | 1.5 | 1.5 | 0.0 | Signed | 1.5 | 1.5 | 0.0 | 2008 | |
| | Mobias Banca - Senior Loan | PRIVATE | Debt | 5.0 | 5.0 | 0.0 | Disbursing | 5.0 | 1.3 | 3.7 | 2008 | |
| | Moldindconbank (MICB) - Credit Line for SMEs | PRIVATE | Debt | 10.9 | 10.9 | 0.0 | Disbursing | 15.7 | 1.0 | 14.7 | 2009 | |
| | MAIB - SME Credit Line | PRIVATE | Debt | 20.0 | 20.0 | 0.0 | Disbursing | 20.0 | 4.9 | 15.1 | 2009 | |
| | Banca Sociala SME Credit Line (III) | PRIVATE | Debt | 5.0 | 5.0 | 0.0 | Signed | 5.0 | 5.0 | 0.0 | 2010 | |
| | MAIB - MoSEFF | PRIVATE | Debt | 7.0 | 7.0 | 0.0 | Signed | 7.0 | 7.0 | 0.0 | 2010 | |
| | MICB - MoSEFF | PRIVATE | Debt | 3.0 | 3.0 | 0.0 | Signed | 3.0 | 3.0 | 0.0 | 2010 | |
| Small Business Finance | Micro-Lending Project - Banca Mobias | PRIVATE | Debt | 0.6 | 0.6 | 0.0 | Completed | | | | 1996 | |
| | Micro-Lending Project - Victoria Bank | PRIVATE | Debt | 0.6 | 0.6 | 0.0 | Completed | | | | 1996 | |
| | Micro-Lending Project - Moldova Agroindbank | PRIVATE | Debt | 1.0 | 1.0 | 0.0 | Completed | | | | 1996 | |
| | Micro-Lending Project - Universal Bank | PRIVATE | Debt | 0.6 | 0.6 | 0.0 | Completed | | | | 1997 | |
| | ProCredit Bank Moldova | PRIVATE | Debt & Equity | 0.8 | 0.7 | 0.1 | Completed | | | | 2000 | |
| | ProCredit Bank Moldova | PRIVATE | Debt | 1.6 | 1.6 | 0.0 | Completed | | | | 2005 | |
| | EIC Non-Bank MF1 FW - Rural Finance Corporation | PRIVATE | Debt | 0.6 | 0.6 | 0.0 | Completed | | | | 2005 | |
| | EIC Non-Bank MF1 Framework II - Microinvest | PRIVATE | Debt | 0.8 | 0.8 | 0.0 | Repaying | 0.1 | 0.0 | 0.1 | 2007 | |
| | Moldova MMF - Mobiasbanca | PRIVATE | Debt | 2.4 | 2.4 | 0.0 | Repaying | 0.7 | 0.0 | 0.7 | 2006 | |
| | Moldova MMF - Banca Sociala | PRIVATE | Debt | 3.3 | 3.3 | 0.0 | Repaying | 1.4 | 0.0 | 1.4 | 2006 | |
| | European Fund for Southeast Europe (EFSE) | PRIVATE | Equity | 2.0 | 0.0 | 2.0 | Repaying | 1.9 | 0.0 | 1.9 | 2006 | |
| | EIC Non-Bank MF1 Framework III - Microinvest II | PRIVATE | Debt | 1.2 | 1.2 | 0.0 | Signed | 1.2 | 1.2 | 0.0 | 2009 | |
| | Moldova Microlending Programme - ProCredit Bank | PRIVATE | Debt | 2.0 | 2.0 | 0.0 | Disbursing | 3.9 | 2.0 | 2.0 | 2009 | |
| | European Fund for SouthEast Europe (EFSE) II - A shares | PRIVATE | Equity | 1.7 | 0.0 | 1.7 | Signed | 1.7 | 1.7 | 0.0 | 2009 | |
| | Insurance & Financial Services | MCFE - Mobiasbanca IMC Leasing Sub-Loan | PRIVATE | Debt | 1.4 | 1.4 | 0.0 | Completed | | | | 2008 |

| Sector | Name | Private / State | Instrument Type | EBRD Finance | Debt | Equity | Operation Stage | Portfolio | Undrawn Commitment | Operating Assets | Year of Signing |
|--|---|-----------------|---------------------|---------------------|------|------------|---------------------|---------------------|--------------------|------------------|-----------------|
| Industry, Commerce & Agribusiness | | | | <i>Euro million</i> | | | | <i>Euro million</i> | | | |
| Agribusiness | Wine Export Promotion | STATE | Debt | 24.1 | 24.1 | 0.0 | Completed | | | | 1994 |
| | GCC Cumulative Preference Share Issue Moldova/WJZMS/Warehouse Receipt Programme | PRIVATE | Debt & Equity | 6.3 | 6.3 | 0.0 | Completed | | | | 2000 |
| | MCFP - Victoria Bank Trans Oil Moldova Sub-Loan (NRP) | PRIVATE | Debt | 5.0 | 5.0 | 0.0 | Completed | | | | 2003 |
| | MCFP - Victoria Bank Orhei Vit Sub-Loan (NRP) | PRIVATE | Debt | 0.8 | 0.8 | 0.0 | Completed | | | | 2004 |
| | MCFP - Victoria Bank Orhei Vit Sub-Loan (NRP) | PRIVATE | Debt | 1.0 | 1.0 | 0.0 | Completed | | | | 2004 |
| | Glass Container Company | PRIVATE | Debt | 2.1 | 2.1 | 0.0 | Completed | | | | 2005 |
| | MCFP - Victoria Bank Bucuria Sub-Loan | PRIVATE | Debt | 0.7 | 0.7 | 0.0 | Completed | | | | 2005 |
| | MCFP - Mobiasbanca Basarabia Sub-Loan | PRIVATE | Debt | 0.6 | 0.6 | 0.0 | Completed | | | | 2006 |
| | DLF - Orhei Vit Canery | PRIVATE | Debt | 4.0 | 4.0 | 0.0 | Completed | | | | 2006 |
| | Furshet | PRIVATE | Debt | 1.7 | 1.7 | 0.0 | Repaying | 1.5 | 0.0 | 1.5 | 2007 |
| | Eles Vitanta Brewery | PRIVATE | Debt | 14.6 | 14.6 | 0.0 | Disbursing | 14.2 | 0.0 | 14.2 | 2008 |
| | DLF - Trans Oil | PRIVATE | Debt | 9.8 | 9.8 | 0.0 | Disbursing | 9.4 | 4.7 | 4.7 | 2009 |
| DLF - WJ Moldova | PRIVATE | Debt | 12.1 | 12.1 | 0.0 | Disbursing | 11.7 | 0.0 | 11.7 | 2009 | |
| Equity funds | First NIS Regional Fund | PRIVATE | Equity | 0.3 | 0.0 | 0.3 | Completed | | | | 1994 |
| | Balkan Accession Fund, C.V. | PRIVATE | Equity | 1.1 | 0.0 | 1.1 | Disbursing | 1.0 | 0.4 | 0.6 | 2006 |
| | Europe Virgin Fund | PRIVATE | Equity | 4.7 | 0.0 | 4.7 | Signed | 4.7 | 4.7 | 0.0 | 2010 |
| | Emerging Europe Accession Fund | PRIVATE | Equity | 1.0 | 0.0 | 1.0 | Signed | 1.0 | 1.0 | 0.0 | 2010 |
| Manufacturing & Services | MCFP - Victoria Bank Protos SA Sub-Loan (NRP) | PRIVATE | Debt | 0.4 | 0.4 | 0.0 | Completed | | | | 2005 |
| | DLF - CDG (Central de Diagnostic German) | PRIVATE | Debt | 2.0 | 2.0 | 0.0 | Signed | 2.0 | 2.0 | 0.0 | 2009 |
| Property and Tourism | Bluehouse equity fund | PRIVATE | Equity | 1.3 | 0.0 | 1.3 | Repaying | 1.2 | 0.3 | 0.9 | 2006 |
| | BSR Europe Co-Investment Facility | PRIVATE | Equity | 1.8 | 0.0 | 1.8 | Disbursing | 1.8 | 1.6 | 0.2 | 2006 |
| | Chisinau Shopping Mall | PRIVATE | Debt | 21.4 | 21.4 | 0.0 | Repaying | 19.7 | 1.9 | 17.8 | 2008 |
| | ILP - Iucan Comert Utice Center & Endava ICT Incubator | PRIVATE | Debt | 2.3 | 2.3 | 0.0 | Signed | 2.3 | 2.3 | 0.0 | 2009 |
| Telecom, Informatics, Media | Eurovision - NRT Moldova | STATE | Debt | 0.8 | 0.8 | 0.0 | Completed | | | | 1992 |
| | MCFP - Mobiasbanca Sun Communications Sub-Loan | PRIVATE | Debt | 0.2 | 0.2 | 0.0 | Completed | | | | 2006 |
| | SUN Communications-Debt | PRIVATE | Debt | 4.9 | 4.9 | 0.0 | Repaying | 3.5 | 0.0 | 3.5 | 2007 |
| | SUN Communications-Equity | PRIVATE | Equity | 1.9 | 0.0 | 1.9 | Disbursing | 1.9 | 0.0 | 1.9 | 2007 |
| Infrastructure | | | <i>Euro million</i> | | | | <i>Euro million</i> | | | | |
| Municipal & Environmental Infrastructure | Energy Efficiency Project | STATE | Debt | 7.6 | 7.6 | 0.0 | Completed | | | | 1995 |
| | Chisinau Water Services Rehabilitation Project | STATE | Debt | 17.1 | 17.1 | 0.0 | Repaying | 5.6 | 0.0 | 5.6 | 1997 |
| | Aqualia Investment Venture | PRIVATE | Equity | 4.0 | 0.0 | 4.0 | Disbursing | 4.0 | 4.0 | 0.0 | 2009 |
| | Chisinau Public Transport | PRIVATE | Debt | 5.0 | 5.0 | 0.0 | Signed | 5.0 | 5.0 | 0.0 | 2010 |
| | Moldova - Water Utilities Development Programme | STATE | Debt | 10.0 | 10.0 | 0.0 | Signed | 10.0 | 10.0 | 0.0 | 2010 |
| Transport | Road Rehabilitation Project | STATE | Debt | 9.4 | 9.4 | 0.0 | Repaying | 0.8 | 0.0 | 0.8 | 1995 |
| | Port of Giurgiulesti Oil Terminal Project | PRIVATE | Debt & Equity | 9.3 | 8.1 | 1.3 | Completed | | | | 1996 |
| | Chisinau Airport Priority Modernisation Programme | STATE | Debt | 7.2 | 7.2 | 0.0 | Completed | | | | 1998 |
| | Danube Logistics S.R.L. | PRIVATE | Debt & Equity | 5.9 | 4.3 | 1.5 | Repaying | 0.0 | 0.0 | 0.0 | 2005 |
| | Moldova Road Rehabilitation Project | STATE | Debt | 17.5 | 17.5 | 0.0 | Disbursing | 17.5 | 17.5 | 0.0 | 2008 |
| | Chisinau Airport Modernisation Project II | PRIVATE | Debt | 25.5 | 25.5 | 0.0 | Disbursing | 25.5 | 19.0 | 6.5 | 2008 |
| Energy | | | <i>Euro million</i> | | | | <i>Euro million</i> | | | | |
| | Moldova Power Distribution Equity Investment | PRIVATE | Equity | 5.9 | 0.0 | 5.9 | Disbursing | 5.4 | 0.0 | 5.4 | 2000 |
| | Post-Privatisation Power Distribution Loan | PRIVATE | Debt | 16.3 | 16.3 | 0.0 | Repaying | 2.8 | 0.0 | 2.8 | 2000 |
| | Electricity Distribution Upgrade | PRIVATE | Debt | 12.2 | 12.2 | 0.0 | Signed | 11.8 | 7.9 | 3.9 | 2009 |

ANNEX 6: PROJECT PIPELINE

| SECTOR | EBRD Funding (EUR million) | % of total funding | No. of projects | % of total no. of projects |
|--|---------------------------------------|-------------------------------|----------------------------|---------------------------------------|
| Financial Institutions | 26.1 | 27% | 4 | 33% |
| Bank Equity | 0 | 0% | 0 | 0% |
| Bank Lending | 22.0 | 22% | 2 | 17% |
| Equity funds | 0.2 | 0% | 1 | 8% |
| Small Business Finance | 3.9 | 4% | 1 | 8% |
| Insurance & Financial Services | 0 | 0% | 0 | 0% |
| Industry, Commerce & Agribusiness | 25.2 | 26% | 5 | 42% |
| Agribusiness | 5 | 5% | 1 | 8% |
| Manufacturing & Services | 16.2 | 17% | 3 | 25% |
| Property and Tourism | 4.0 | 4% | 1 | 8% |
| Telecom, Informatics, Media | 0 | 0% | 0 | 0% |
| Infrastructure | 40.0 | 41% | 2 | 17% |
| Municipal & Environmental Infrastructure | 15.0 | 15% | 1 | 8% |
| Transport | 25.0 | 25% | 1 | 8% |
| Energy | 6.8 | 7% | 1 | 8% |
| TOTAL | 98.1 | 100% | 12 | 100% |

ANNEX 7: TECHNICAL ASSISTANCE BY DONOR AND SECTOR

| Donor | Committed (EUR) | Disbursed (EUR) |
|---------------------------------|-------------------|-------------------|
| Canada | 340,901 | 340,901 |
| Czech Republic | 48,324 | 48,324 |
| Denmark | 111,757 | 111,757 |
| European Commission | 9,245,978 | 4,258,045 |
| Belgium | 12,770 | 12,770 |
| France | 254,499 | 254,499 |
| Germany | 549,281 | 549,281 |
| Greece | 128,946 | 128,946 |
| Netherlands | 515,939 | 515,939 |
| Italy | 82,931 | 82,931 |
| Japan | 2,407,096 | 2,407,096 |
| Private Sector Donor | 105,798 | 105,798 |
| Switzerland | 803,362 | 796,329 |
| Sweden | 1,840,893 | 262,763 |
| Taipei China | 420,512 | 420,512 |
| United Kingdom | 400,459 | 400,459 |
| United States | 745,847 | 745,847 |
| Balkan Region Special Fund | 90,241 | 90,241 |
| Central European Initiative | 37,162 | 37,162 |
| EBRD Shareholder Special Fund | 1,763,865 | 786,280 |
| Early Transition Countries Fund | 5,657,901 | 3,797,898 |
| TC Special Fund | 42,059 | 42,059 |
| Grand Total | 25,606,521 | 16,195,836 |

| Sector | Committed (EUR) | Disbursed (EUR) |
|--|-------------------|-------------------|
| Agribusiness | 19,696 | 19,696 |
| Energy and Energy Efficiency | 3,465,185 | 1,661,211 |
| Financial Institutions | 5,722,482 | 5,010,829 |
| Legal Transition | 1,590,652 | 821,449 |
| Manufacturing & Services | 6,163,387 | 4,957,959 |
| Municipal & Environmental Infrastructure | 6,423,763 | 1,859,796 |
| Telecom, Informatics, Media | 563,272 | 563,272 |
| Transport | 1,658,084 | 1,301,624 |
| Grand Total | 25,606,521 | 16,195,836 |

ANNEX 8: LIST OF TECHNICAL ASSISTANCE PROJECTS

| Commitment Name | Euro Committed | Euro Disbursed | Approved Date | Commit. Stage | Sector |
|--|----------------|----------------|---------------|---------------|--------------------------------|
| Wine quality improvement and export promotion | 172,191 | 172,191 | 08/06/93 | Closed | Manufacturing |
| Wine sector investment programme - wine export packaging development | 181,512 | 181,512 | 28/06/93 | Closed | Manufacturing |
| Energy efficiency improvement study | 140,085 | 140,085 | 08/02/94 | Closed | Energy |
| International audit for Victoria Bank | 48,828 | 48,828 | 28/03/94 | Closed | Finance, Business |
| Wine export promotion - project preparation of implementation framework | 86,102 | 86,102 | 28/03/94 | Closed | Manufacturing |
| Agro-processing and food distribution | 32,329 | 32,329 | 27/04/94 | Closed | Manufacturing |
| Solar energy and demand - side pre-feasibility study | 49,979 | 49,979 | 09/06/94 | Closed | Energy |
| International audit for Victoria Bank | 13,743 | 13,743 | 01/07/94 | Closed | Finance, Business |
| Wine export promotion - short-term expertise | 222,935 | 222,935 | 09/09/94 | Closed | Manufacturing |
| Wine export promotion | 737,118 | 737,118 | 01/10/94 | Closed | Manufacturing |
| Wholesale market feasibility study | 175,463 | 175,463 | 12/01/95 | Closed | Manufacturing |
| Road rehabilitation design study | 273,861 | 273,861 | 22/06/95 | Closed | Construction |
| Credit adviser for Moldova - Agroindbank | 216,281 | 216,281 | 22/06/95 | Closed | Finance, Business |
| Credit adviser for Victoria Bank | 204,669 | 204,669 | 22/06/95 | Closed | Finance, Business |
| Advice on privatisation, legislation and policy - Moldtelecom - sector policy and regulatory development | 93,272 | 93,272 | 01/09/95 | Closed | Telecommunications |
| Micro-lending scoping mission | 42,602 | 42,602 | 25/09/95 | Closed | Finance, Business |
| Advisory services for the privatisation of Moldtelecom through an international competitive tender | 470,000 | 470,000 | 01/11/95 | Closed | Telecommunications |
| Assistance in developing a secured transactions law for Moldova | 24,961 | 24,961 | 28/11/95 | Closed | Community/Social Services |
| Assessment of road needs | 324,075 | 324,075 | 08/12/95 | Closed | Construction |
| Heat tariff study | 173,818 | 173,818 | 14/12/95 | Closed | Energy |
| Development of commercial management systems - Termocom | 447,941 | 447,941 | 01/07/96 | Closed | Energy |
| Swiss-American Micro Enterprise Programme | 745,847 | 745,847 | 21/08/96 | Closed | Finance, Business |
| Swiss-American Micro-Enterprise Programme | 331,805 | 331,805 | 01/09/96 | Closed | Finance, Business |
| Investment led privatisation programme | 386,900 | 386,900 | 08/10/96 | Closed | Local Authority Services |
| Chisinau water services - corporate development assistance | 799,729 | 799,729 | 23/01/97 | Closed | Local Authority Services |
| TurnAround Management Programme - JSC Tirotex | 11,500 | 11,500 | 07/07/97 | Closed | Community/Social Services |
| TurnAround Management Programme - Tirotex | 5,350 | 5,350 | 12/08/97 | Closed | Manufacturing |
| Moldova wine investment framework facility | 19,696 | 19,696 | 19/08/97 | Closed | Agriculture, Forestry, Fishing |
| TurnAround Management Programme - Moldavizolit | 7,420 | 7,420 | 22/10/97 | Closed | Manufacturing |
| TurnAround Management Programme - Moldavizolit | 15,275 | 15,275 | 22/10/97 | Closed | Manufacturing |
| Moldovan metallurgical works | 90,735 | 90,735 | 10/11/97 | Closed | Manufacturing |
| Moldovan metallurgical works - environmental assessment | 23,307 | 23,307 | 18/11/97 | Closed | Manufacturing |
| TurnAround Management Programme - Moldavizolit | 5,766 | 5,766 | 05/01/98 | Closed | Manufacturing |
| Moldovan Metallurgical Works - legal advice | 25,901 | 25,901 | 28/01/98 | Closed | Manufacturing |
| TurnAround Management Programme - Floare Carpet SA | 10,296 | 10,296 | 04/03/98 | Closed | Manufacturing |
| TurnAround Management Programme - Floare-Carpet SA | 35,192 | 35,192 | 26/03/98 | Closed | Manufacturing |
| Assistance with the establishment of a registry for pledges (local consultants) | 35,502 | 35,502 | 05/05/98 | Closed | Community/Social Services |
| Assistance with the establishment of a registry for pledges | 48,094 | 48,094 | 05/05/98 | Closed | Community/Social Services |
| TurnAround Management Programme - JSC Tirotex II | 87,312 | 87,312 | 29/05/98 | Closed | Community/Social Services |
| Wine export promotion project | 18,752 | 18,752 | 30/09/98 | Closed | Manufacturing |
| TurnAround Management Programme - Moldova metallurgical works (tied portion) | 15,604 | 15,604 | 05/10/98 | Closed | Community/Social Services |
| TurnAround Management Programme - Moldova metallurgical works | 59,808 | 59,808 | 05/10/98 | Closed | Community/Social Services |

| Commitment Name | Euro Committed | Euro Disbursed | Approved Date | Commit. Stage | Sector |
|---|----------------|----------------|---------------|---------------|---------------------------|
| TurnAround Management Programme - Moldova Metallurgical Works | 14,874 | 14,874 | 05/10/98 | Closed | Community/Social Services |
| TurnAround Management Programme - JSC Tirotext | 29,054 | 29,054 | 17/11/98 | Closed | Manufacturing |
| Moldova Agroindbank senior convertible loan | 249,571 | 249,571 | 18/12/98 | Closed | Finance, Business |
| TurnAround Management Programme - Vitis Hincesti SA | 14,621 | 14,621 | 23/04/99 | Closed | Community/Social Services |
| Legal due diligence equity warehouse project | 50,000 | 50,000 | 28/05/99 | Closed | Energy |
| Power Distribution Equity Warehouse: Technical, Financial, Environmental Due Diligence | 128,946 | 128,946 | 02/06/99 | Closed | Energy |
| Power distribution equity warehouse - technical, financial, environmental due diligence | 57,940 | 57,940 | 02/06/99 | Closed | Energy |
| Legal due diligence equity warehouse project - legal due diligence | 96,397 | 96,397 | 04/06/99 | Closed | Energy |
| Wine export promotion project | 232,133 | 232,133 | 12/08/99 | Closed | Manufacturing |
| Power distribution equity warehouse - legal due diligence | 39,180 | 39,180 | 19/10/99 | Closed | Energy |
| Chisinau Water Services Corporate Development Assistance | 220,134 | 220,134 | 24/03/00 | Closed | Local Authority Services |
| Pavement management systems | 411,557 | 411,557 | 16/08/00 | Closed | Construction |
| Micro Enterprise Credit DIN S.A. (MEC), Moldova - Expansion of Office/Branch Network | 578,285 | 578,285 | 04/10/01 | Closed | Finance, Business |
| MEC Moldova - Management and Regional Expansion | 200,000 | 200,000 | 18/06/03 | Closed | Finance, Business |
| Moldova : Improving Leasing Transactions Related Legislation | 90,241 | 90,241 | 23/10/03 | Closed | Community/Social Services |
| MEC Moldova - Management and Regional Expansion | 299,436 | 299,436 | 14/11/03 | Closed | Finance, Business |
| MAIB Institutional Building Advisor | 105,798 | 105,798 | 11/12/03 | Closed | Finance, Business |
| Feasibility Study for a BAS Programme in Moldova | 10,254 | 10,254 | 10/02/04 | Closed | Manufacturing |
| TAM - Acorex Wine Holding | 58,905 | 58,905 | 21/06/04 | Closed | Manufacturing |
| TAM - Orvento Metal Trading | 42,179 | 42,179 | 30/06/04 | Closed | Manufacturing |
| Moldova Electrical Safety | 265,000 | 265,000 | 05/08/04 | Closed | Energy |
| Orhei Vit Technical & Financial Due Diligence | 31,267 | 31,267 | 07/10/04 | Closed | Finance, Business |
| Mortgage Transactions Reform in Moldova - Exploratory Project | 61,518 | 61,518 | 23/12/04 | Closed | Community/Social Services |
| Implementation of the BAS Programme during 2005-2007 (3 years) | 1,058,000 | 1,020,534 | 15/04/05 | Disbursing | Manufacturing |
| Continuation of TAM Programme in Moldova | 275,832 | 275,832 | 25/04/05 | Closed | Manufacturing |
| Moldova: Medium Sized Co-Financing Regional Facility TC Project | 46,016 | 46,016 | 27/04/05 | Closed | Finance, Business |
| Moldova: Enhancement of Lending and Risk Management Skills | 27,624 | 27,624 | 06/12/05 | Closed | Finance, Business |
| Mortgage Law and Mortgage Securitisation in Moldova Phase 2 | 245,093 | 245,093 | 20/01/06 | Closed | Community/Social Services |
| TAM - Cristal Flor JSC | 35,060 | 35,060 | 27/01/06 | Closed | Manufacturing |
| Moldova Microlending Programme - Implementation of a Micro and Small Enterprise (MSE) Lending | 1,279,667 | 1,279,667 | 30/01/06 | Closed | Finance, Business |
| TAM - Hemosan | 77,093 | 77,093 | 27/02/06 | Closed | Manufacturing |
| TAM - Acorex Wine Holding | 24,026 | 24,026 | 07/03/06 | Closed | Manufacturing |
| TAM - Orvento Metal Trading | 34,386 | 34,386 | 05/05/06 | Closed | Manufacturing |
| Moldova: Factoring Advisory Services for Banks & Factoring Companies | 165,044 | 165,044 | 15/06/06 | Closed | Finance, Business |
| TAM - Cahul Pan SA | 70,500 | 70,500 | 19/09/06 | Closed | Manufacturing |
| TAM - Arlon Group | 8,141 | 8,141 | 07/12/06 | Closed | Manufacturing |
| Mortgage Law and Mortgage Securitisation in Moldova - Phase II - Tranche 2 | 122,344 | 117,811 | 14/02/07 | Disbursing | Community/Social Services |
| Moldova: Chisinau Airport Modernisation Airport Project - Due Diligence Assistance | 173,968 | 173,968 | 10/12/07 | Closed | Transport, Storage |
| Chisinau International Airport: Environmental Audit/Analysis | 27,622 | 27,622 | 11/12/07 | Closed | Transport, Storage |
| Moldova: Financial Sector Framework - Advisory Services to Partner Institutions | 250,000 | 49,653 | 14/12/07 | Committed | Finance, Business |
| TAM - Riscom | 66,299 | 35,717 | 13/02/08 | Disbursing | Manufacturing |
| Assessment of Sustainable Energy Investment Potential in Moldova - Market Demand Study | 48,324 | 48,324 | 19/02/08 | Closed | Energy |

| Commitment Name | Euro Committed | Euro Disbursed | Approved Date | Commit. Stage | Sector |
|--|-------------------|-------------------|---------------|---------------|---------------------------|
| National Commission of Financial Market: Management Information System Development | 400,000 | 369,794 | 18/03/08 | Disbursing | Finance, Business |
| Moldova: Financial Sector Framework - Advisory Services to Partner Institutions | 450,000 | 4,900 | 27/03/08 | Committed | Finance, Business |
| Continuation of the BAS Programme in FYR Moldova | 588,667 | 452,851 | 17/09/08 | Disbursing | Manufacturing |
| CEI Operational Budget - SEF 08 transfer to Chisnau RO A/C | 37,162 | 37,162 | 22/09/08 | Closed | Community/Social Services |
| TAM - IMC Markets | 75,000 | 45,916 | 27/10/08 | Committed | Manufacturing |
| TAM - Supraten | 75,000 | 19,007 | 27/10/08 | Committed | Manufacturing |
| Randomised Impact Evaluation of Mortgage Law Reform in Moldova | 13,457 | 13,457 | 21/11/08 | Closed | Community/Social Services |
| Randomised Impact evaluation Of Mortgage Law Reform | 14,000 | 14,000 | 21/11/08 | Closed | Community/Social Services |
| TAM - Nafarul | 75,000 | 41,093 | 03/12/08 | Committed | Manufacturing |
| BAS Programme in Moldova - Environmental and Energy Efficiency | 726,647 | 209,746 | 04/03/09 | Disbursing | Manufacturing |
| TAM - Incomas | 75,000 | 45,194 | 15/04/09 | Disbursing | Manufacturing |
| TAM - Screening in Moldova | 4,948 | 4,948 | 15/04/09 | Closed | Manufacturing |
| Chisinau Airport: Assistance to Preparation of Master Plan | 250,000 | 63,540 | 07/05/09 | Disbursing | Transport, Storage |
| Moldova: Communications Regulatory Development | 429,140 | 66,805 | 24/08/09 | Disbursing | Community/Social Services |
| Communications Regulatory Development (ETC funded portion) | 429,140 | 66,805 | 24/08/09 | Disbursing | Community/Social Services |
| Consultancy services in support of MoSEFF | 1,707,700 | 163,602 | 03/09/09 | Disbursing | Energy |
| Moldova: Moldovan Sustainable Energy Financing Facility ("MoSEFF") - Independent Energy consultant | 259,876 | 0 | 30/09/09 | Committed | Energy |
| TAM - Acvila | 48,000 | 12,547 | 30/09/09 | Committed | Manufacturing |
| TAM - Avicola Roso | 48,000 | 22,224 | 30/09/09 | Committed | Manufacturing |
| Moldova Water Utilities Development - Due Diligence Services | 492,000 | 453,032 | 06/10/09 | Committed | Local Authority Services |
| TAM - Noustil | 13,298 | 13,298 | 23/10/09 | Disbursing | Manufacturing |
| TAM - Plimed - Crisis Response | 47,500 | 23,171 | 27/10/09 | Committed | Manufacturing |
| TAM - Orvento Metall Trading Co Ltd - Crisis Response | 47,500 | 18,669 | 27/10/09 | Committed | Manufacturing |
| Chisinau Public Transport Project - Due Diligence | 197,000 | 27,000 | 30/10/09 | Committed | Transport, Storage |
| TAM - Tetis International Co SRL | 75,000 | 27,901 | 10/11/09 | Committed | Manufacturing |
| TAM - Sanin | 75,000 | 17,217 | 10/11/09 | Committed | Manufacturing |
| Communications Regulatory Development (ETC funded portion) - Additional Work | 20,000 | 0 | 17/11/09 | Committed | Community/Social Services |
| Communications Regulatory Development | 20,000 | 0 | 24/11/09 | Committed | Community/Social Services |
| Chisinau Water Supply & Sewage Treatment - Feasibility Study | 3,000,000 | 0 | 22/01/10 | Committed | Local Authority Services |
| Continuation of the BAS Programme in Moldova - Extension | 117,601 | 1,000 | 27/05/10 | Committed | Manufacturing |
| Institution Building & Targeted Crisis Response Framework: Moldova, Microinvest Portfolio audit | 36,000 | 0 | 05/07/10 | Committed | Finance, Business |
| Moldova Water Utilities Development Programme - FOPIP | 525,000 | 0 | 12/08/10 | Committed | Local Authority Services |
| Moldova Water Utilities Development Programme - PIU Support | 1,000,000 | 0 | 12/08/10 | Committed | Local Authority Services |
| Total | 25,606,521 | 16,195,836 | | | |

ANNEX 9: SELECTED ECONOMIC INDICATORS

| Moldova | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|---|----------|----------|----------|----------|-----------------|-------------------|
| | | | | | | <i>Estimate</i> | <i>Projection</i> |
| Output and expenditure | <i>(Percentage change in real terms)</i> | | | | | | |
| GDP | 7.4 | 7.5 | 4.8 | 3.0 | 7.8 | -6.5 | 4.0 |
| Private consumption | 6.2 | 10.1 | 7.0 | 3.6 | 5.8 | -7.9 | na |
| Public consumption | -16.2 | 6.3 | 5.3 | 5.3 | 5.0 | 1.9 | na |
| Gross fixed capital formation | 10.5 | 11.0 | 15.1 | 25.5 | 2.2 | -31.3 | na |
| Exports of goods and services | 11.0 | 17.7 | 2.8 | 10.5 | 3.4 | -7.8 | na |
| Imports of goods and services | 3.6 | 18.1 | 10.3 | 14.6 | 2.9 | -19.3 | na |
| Industrial gross output | 8.2 | 7.0 | -4.8 | -1.3 | 0.7 | -22.2 | na |
| Agricultural gross output | 20.8 | 0.8 | -1.1 | -23.1 | 32.1 | -9.9 | na |
| Employment | <i>(Percentage change)</i> | | | | | | |
| Labour force (end-year) | -2.8 | -0.7 | -4.6 | -3.2 | -0.8 | -2.9 | na |
| Employment (end-year) | -3.0 | 0.2 | -4.7 | -0.8 | 0.3 | -5.3 | na |
| | <i>(In per cent of labour force)</i> | | | | | | |
| Unemployment (end-year) ¹ | 8.1 | 7.3 | 7.4 | 5.1 | 4.0 | 6.4 | na |
| Prices and wages | <i>(Percentage change)</i> | | | | | | |
| Consumer prices (annual average) | 12.5 | 11.9 | 12.7 | 12.3 | 12.7 | 0.0 | 7.8 |
| Consumer prices (end-year) | 12.5 | 10.0 | 14.1 | 13.1 | 7.3 | 0.4 | 8.6 |
| Producer prices (annual average) | 5.6 | 5.3 | 12.2 | 13.4 | 10.4 | -3.0 | na |
| Producer prices (end-year) | 4.9 | 7.2 | 12.9 | 15.2 | 3.4 | 1.0 | na |
| Gross average monthly earnings in economy (annual average) | 23.8 | 19.5 | 28.7 | 21.7 | 22.5 | 8.6 | na |
| Government sector | <i>(In per cent of GDP)</i> | | | | | | |
| General government balance ² | 0.4 | 1.5 | -0.3 | -0.3 | -1.0 | -6.8 | -6.6 |
| General government expenditure ² | 35.1 | 37.0 | 40.1 | 41.8 | 41.5 | 45.5 | na |
| General government debt ³ | 46.0 | 34.7 | 34.2 | 28.5 | 21.4 | 27.5 | na |
| Monetary sector | <i>(Percentage change)</i> | | | | | | |
| Broad money (M2, end-year) | 44.7 | 36.7 | 12.2 | 47.3 | 18.4 | -3.8 | na |
| Domestic credit (end-year) | 25.8 | 15.8 | 30.1 | 39.0 | 16.5 | 0.0 | na |
| | <i>(In per cent of GDP)</i> | | | | | | |
| Broad money (M2, end-year) | 25.4 | 29.5 | 27.9 | 34.4 | 34.6 | 34.9 | na |
| Interest and exchange rates | <i>(In per cent per annum, end-year)</i> | | | | | | |
| Refinancing rate | 14.5 | 12.5 | 14.5 | 16.0 | 14.0 | 5.0 | na |
| Interbank interest rate (up to 30-days maturity) | 13.3 | 6.3 | 9.5 | 12.3 | 15.5 | 15.4 | na |
| Deposit rate (1 year) | 15.2 | 13.0 | 11.9 | 15.1 | 18.1 | 14.7 | na |
| Lending rate (1 year) | 21.0 | 18.9 | 18.2 | 18.9 | 21.0 | 20.3 | na |
| | <i>(Lei per US dollar)</i> | | | | | | |
| Exchange rate (end-year) | 12.5 | 12.8 | 12.9 | 11.3 | 10.4 | 12.3 | na |
| Exchange rate (annual average) | 12.3 | 12.6 | 13.1 | 12.1 | 10.4 | 11.1 | na |
| External sector | <i>(In millions of US dollars)</i> | | | | | | |
| Current account | -51.7 | -231.7 | -393.5 | -726.0 | -1,048.3 | -508.6 | -475.0 |
| Trade balance | -754.2 | -1,191.5 | -1,583.6 | -2,303.1 | -3,220.4 | -1,943.6 | -2,065.0 |
| Merchandise exports | 994.1 | 1,104.6 | 1,060.8 | 1,373.3 | 1,646.0 | 1,329.2 | 1,420.0 |
| Merchandise imports | 1,748.2 | 2,296.1 | 2,644.4 | 3,676.4 | 4,866.3 | 3,272.7 | 3,485.0 |
| Foreign direct investment, net | 145.7 | 198.9 | 234.2 | 522.0 | 691.5 | 79.5 | 175.0 |
| Gross reserves, excluding gold (end-year) | 470.3 | 597.4 | 775.3 | 1,333.7 | 1,672.4 | 1,480.3 | na |
| External debt stock | 1,883.8 | 2,080.0 | 2,530.9 | 3,355.9 | 4,106.8 | 4,368.0 | na |
| | <i>(In months of imports of goods and services)</i> | | | | | | |
| Gross reserves, excluding gold (end-year) | 2.7 | 2.6 | 3.0 | 3.7 | 3.5 | 4.5 | na |
| | <i>(In per cent of exports of goods and services)</i> | | | | | | |
| Debt service | 21.0 | 16.5 | 18.7 | 13.1 | 17.7 | 26.4 | 17.5 |
| Memorandum items | <i>(Denominations as indicated)</i> | | | | | | |
| Population (end-year, million) ⁴ | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | na |
| GDP (in millions of lei) | 32,032.0 | 37,651.9 | 44,754.0 | 53,430.0 | 62,922.0 | 60,043.0 | 67,294.7 |
| GDP per capita (in US dollars) | 720.2 | 830.0 | 949.4 | 1,229.0 | 1,694.7 | 1,515.0 | na |
| Share of industry in GDP (in per cent) | 20.5 | 19.1 | 18.0 | 19.1 | 18.8 | na | na |
| Share of agriculture in GDP (in per cent) | 17.5 | 16.4 | 14.8 | 10.0 | 8.8 | na | na |
| Current account/GDP (in per cent) | -2.0 | -7.8 | -11.5 | -16.5 | -17.3 | -9.4 | -9.0 |
| External debt - reserves (in US\$ million) | 1,413.5 | 1,482.6 | 1,755.6 | 2,022.2 | 2,434.4 | 2,887.8 | na |
| External debt/GDP (in per cent) | 72.5 | 69.6 | 74.3 | 76.3 | 67.8 | 80.8 | na |
| External debt/exports of goods and services (in per cent) | 142.0 | 138.3 | 165.8 | 167.9 | 165.4 | 217.9 | na |
| Labor force activity rate ⁵ | 49.7 | 49.0 | 46.3 | 44.8 | 44.3 | 42.8 | na |
| male | 51.7 | 50.4 | 50.0 | 47.8 | 47.3 | 46.2 | na |
| female | 47.9 | 47.7 | 43.0 | 42.2 | 41.5 | 39.7 | na |
| Employment rate ⁵ | 45.7 | 45.4 | 42.9 | 42.5 | 42.6 | 40.0 | na |
| male | 46.6 | 46.0 | 45.5 | 44.8 | 45.2 | 42.6 | na |
| female | 44.9 | 44.8 | 40.5 | 40.5 | 40.2 | 37.7 | na |

¹ According to ILO methodology.

² General government includes the state, local government, social security and healthcare.

³ Includes public and publicly guaranteed debt.

⁴ Excluding Transnistria.

⁵ As a percent of labour force.

ANNEX 10: TAM/ BAS ACTIVITIES IN MOLDOVA

The TAM/BAS Programme supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises (MSMEs) and contributing to the development of sustainable infrastructures of local business advisory services in the EBRD countries of operations.

1. TAM/BAS in Moldova

Previous TAM experience

TAM supports the introduction of international best practice in small and medium-sized enterprises with the potential of becoming future leaders in their market through the introduction of international advisors from developed countries with 15 to 20 years of professional experience in the specific business sector. TAM projects typically last around 18 months.

Since inception in 1998, TAM has received a total of EUR 2.4 million in donor funding for projects in Moldova. The largest donors to TAM have been the EU, the EBRD (Early Transition Countries Fund and Special Shareholders Fund), Italy and Sweden. Additional funding came from Taipei China, the Netherlands, the UK, France, Belgium, Switzerland, Denmark and Japan. The Programme has carried out 37 projects throughout Moldova of which 11 are still in progress. Enterprises assisted operate mainly in the food manufacturing, textile and building material industries.

Previous BAS experience

BAS acts as a facilitator for the use of local, private-sector consultants by MSMEs to obtain a diverse array of services. BAS works on both the demand and the supply side. By assisting individual enterprises to engage with local consultants on narrowly-based, specific projects with a rapid payback, it stimulates demand and the understanding of the potential benefits of using external consultants. It also directly increases the supply and quality of local advisory services, through targeted market development activities. BAS supported projects typically last around four months.

Since inception in 2005, BAS Moldova has received a total of EUR 2.41 million in donor funding. The main donor has been the EBRD Early Transition Countries Fund. Additional funding came from Sweden and the EBRD. The Programme has undertaken a total of 224 projects with MSMEs, engaging 102 consultants (87 per cent of which were local). Projects aimed at introduction of computerized financial and management information systems have been the most common type among all the projects carried out in Moldova. The industry spread of enterprises assisted has been wide, with retail/wholesale distribution and food and beverages manufacturing among the most common sectors.

BAS Programme is assisting smaller enterprises and more than 70 per cent of the projects are with enterprises with less than 50 employees. In terms of cross-cutting issues, BAS Moldova has focused on facilitating rural development. More than 56 per cent of the projects were located in rural areas outside Chisinau. BAS Moldova has also been implementing a specific Energy Efficiency programme targeted at supporting projects with the aim of enhancing energy efficiency and renewable energy for Moldovan SMEs. In addition to projects, the BAS Programme in Moldova has also undertaken a number of market development activities (MDAs) geared towards the promotion of energy efficiency as well as development of management skills of local MSMEs and consultants.

Linkages with banking

To date TAM/BAS-assisted companies in Moldova have attracted equity investment from the EBRD totaling EUR 2 million and loans totaling EUR 11 million. At the same time, TAM/BAS companies received equity investments amounting to EUR 1.5 million and loans totaling EUR 22 million from local financial intermediaries through EBRD extended credit lines.

2. MSME and Consulting sector in Moldova

The MSME sector

Moldova's economy has suffered from the global downturn and real GDP declined by 6.5 per cent in 2009. Nevertheless, positive quarterly GDP growth was recorded in the second half of 2009 and recent figures for industrial production and exports point to a continuation of the recovery. For 2010, an annual growth in GDP of 4 per cent is anticipated.⁹

The size of the Moldovan MSME sector has increased substantially in recent years from 35,000 in 2006 to 41,000 enterprises in 2008. Furthermore, it account for 97.6 per cent of all enterprises. In contrast, MSMEs account for only 57.4 per cent of total formal employment in enterprises and contributed around 31.9 per cent of to national GDP in 2008. According to data provided by the National Bureau of Statistics, the majority of MSMEs operate in the wholesale and retail trade sector (41.1 per cent), followed by the real estate and renting sector (14.6 per cent) as well as others activities (13.6 per cent). Within the MSME sector, micro enterprises (< 9 employees) dominate the sector and represent more than 70 per cent. In contrast, small enterprises (< 49 employees) and medium-sized enterprises (< 249 employees) account for 20.2 per cent and 4.1 per cent respectively. With regard to employment, the numbers are more balanced: micro enterprises provide 38.2 per cent of total employment in the MSME sector, small enterprises 36.7 per cent and medium-sized enterprises 25.1 per cent. Finally, the vast majority of MSMEs operate in the capital Chisinau, whereas the sector remains underdeveloped in most of the rural regions.

Moldova has been amongst the top performers in the World Bank's Doing Business Report 2010, which ranks the country 94th in its Doing Business Index (compared to 108th in the previous year). The government has increased efforts to create a favourable business environment and has implemented two red tape guillotines to facilitate administrative procedures, with a third guillotine currently being developed. Notwithstanding, MSMEs continue to operate in a difficult environment and significant challenges remain particularly with regard to construction permits, employing workers and trading across borders. The domestic economy heavily relies on external sources to stimulate domestic consumption and consequently MSMEs are vulnerable to the fluctuations in the global and regional economy. In the absence of easy access to finance and know-how Moldovan companies struggle to be competitive. In addition, corruption remains wide-spread and a significant barrier to business for MSMEs - 40 per cent of firms surveyed in the latest BEEPS indicate corruption to be a major or severe obstacle, and Moldova ranks poorly in the Transparency International Corruption Perception Index with a score of 3.3. Finally, the low quality of the infrastructure, in particular outside the capital, remains a key problem.

Access to finance continues to be a major impediment for the development of the MSME sector and 25 per cent of surveyed enterprises in the latest round of the BEEPS consider it to be the most severe obstacle to doing business. While the banking system remains sound and liquid, commercial banks have increasingly restricted lending conditions and credit growth stood at -3.6 per cent as of April 2010. In addition, the relatively short duration of tenors and high real interest rates (above 10 per cent in foreign currency for most of the past twelve months) limits MSMEs' ability to embark on long-term investment and makes loan financing prohibitively expensive for most but the most lucrative projects. In addition, due to high administrative costs and lack of adequate collateral, commercial banks deem the MSME sector relatively unattractive. Conversely, micro-finance institutions are very active and play an important role especially in the development of micro enterprises which cannot fulfil the collateral requirements.

A key problem the Moldovan economy is facing is the vast flow of emigration, and enterprises face significant challenges in attracting young and skilled people to work and invest in the domestic economy. As a result, the establishment of a knowledge-based economy is developing slowly. Though in the World Bank's knowledge economy index (KEI), Moldova scores relatively well with regard to higher education, the lack of incentives for the knowledge economy and innovation remains problematic. Entrepreneurial skills incorporated into higher educational curricular remain negligible and techniques and equipment at vocational schools are outdated. A working group between the Ministry for Education and the Ministry for Labour Issues, together with participation of the private sector, has been set up recently to improve the quality of vocational training, providing a benchmark for the slowly emerging public-private dialogue. In addition, a first business incubation centre has been set up in late 2009 in Soroca by the Organisation for Small and Medium Enterprise Sector Development (ODIMM) with assistance from the Norwegian Ministry of Foreign Affairs, currently

⁹ EBRD estimates.

providing free accommodation and free consultancy services to 17 MSMEs. An online platform providing e-consultancy and e-assistance tools to MSMEs is currently also being developed. Finally, the Moldovan Chamber of Commerce and Industry formally advocates the needs of the SME sector and provides various training courses to its members. However, it appears that the chamber primarily addresses the demands of larger companies, whereas the MSMEs continue to be underrepresented.

Government support to the MSME sector

The Moldovan authorities have increasingly recognised the importance of the MSME sector and have begun to prioritise the development of the sector. At state level, the Small and Medium-Sized Business Development Department and ODIMM, both incorporated into the Ministry Economy, are responsible for SME development. The state policy focuses on the implementation of the Programme for Supporting Small and Medium Enterprise Development 2009-2011, which envisages the improvement of the regulatory and legislative framework for MSMEs and the financial environment, and aims at intensifying the public-private partnership. In 2008, the government introduced the one-stop shop strategy at national level, and currently 10 offices of state registration chamber are in operation. In order to facilitate access to finance, a Credit Guarantee Fund (CGF) was established in 2009, offering credit guarantees to micro enterprises which otherwise would not meet the collateral requirements of commercial banks. The CGF is actively used, however, has so far not had a significant impact on the development of the SME sector. In addition, ODIMM offers several training courses especially targeted towards young entrepreneurs and enterprises in rural areas, and has established a special programme aiming at attracting remittances in the domestic MSME market.

Donor support to the MSME and consultancy sector

A variety of international donors operate in Moldova. The World Bank actively supports the development of the MSME sector through the instruments of the Rural Investment and Services Project (RISP) II, which provides training and financial support to business start-ups and young entrepreneurs. In addition, the WB is planning to launch a grant scheme for consultancy services. USAID, the second major donor active in the SME sector, focuses in particular on supporting the authorities in improving the business environment and providing consultancy services to SMEs active in the wine, textile and ICT sectors. SME development is also a component of the EU's strategy towards Moldova within the framework of the European Neighborhood Policy (ENP). In addition, the Swedish International Development Agency (SIDA) has prioritised female entrepreneurship and the German Kreditanstalt fuer Wiederaufbau (KfW) has played a significant role in micro financing. Finally, the Austrian Development Agency (ADA) actively supports the development and upgrading of vocational training with regard to winemaking and other agricultural professions.

The consultancy market

Due to the large number of donor programmes the consultancy market in Moldova has mainly been donor driven. In the past few years consultants broadened their range of services to focus more on private companies' demand. The number of business service providers has increased and the quality has been improving though still requires further development. Most consultants provide basic management consulting services, with very few specialising in an industry or type of service. The consultancy market remains highly fragmented and relatively weak. There are no associations of management consultants or other recognized accreditation bodies which would give incentive for consultants to engage in professional development. Due to good results achieved by programmes such as TAM/BAS, World Bank and USAID, demand is increasing.

Medium-sized enterprises have developed an understanding about the need of consultants, though demand needs are often not met by the consultancy supply. Conversely, smaller enterprises have not yet fully recognised the need for consultancy, although the local consultant market has the competences to address their needs. The business advisory services currently most demanded are fairly basic business services including computerised financial / management information systems and market analysis and planning. There is a clear need however to promote the need for more complex consultancy services having lasting effect on the companies' performance.

3.TAM/BAS continuation in Moldova

Continuation of TAM

In light of the specificities of the local business environment, TAM approach in certain areas could be highly relevant for Moldovan companies. TAM can contribute to build the confidence of SMEs to operate successfully and adapt to international markets. International advisors will act as mentors to achieve sustainable results by changing the enterprise business culture and improving business viability.

Based on the challenges of the Moldovan economy, TAM will concentrate on the following types of projects:

- Compliance with international standards;
- Introduction of quality management systems;
- Promotion of access to export activities;
- Improving financial management and budgeting practices;
- Introduction and/or strengthening strategic planning;
- Establishing efficient organisational structures.

TAM will continue delivering assistance responding to the above as well as focusing on energy efficiency and environmental issues. In terms of sectors, food and beverages and agribusiness as well as textile and apparel industry are seen as those with the largest potential.

TAM/BAS will focus on addressing these gaps by continuing its operations in Moldova. However, the extent of the Programme's activities will depend on funding availability.

Continuation of BAS

MSME Stakeholders unanimously believe that Moldovan entrepreneurs could benefit strongly from the help of business advisory services.

Given the specificities of the local advisory market, the BAS grant will remain the key component of BAS. A Grant Guideline Matrix is proposed in Moldova in order to prioritise intervention, avoid duplication of efforts from international donors and focus on the areas where Moldova businesses have needs and no access to advisory services. Depending on funding availability, higher grants will be allocated according to:

- *Size of enterprise:* Higher grants will be given to smaller enterprises outside of the capital city.
- *Geographic location:* Higher grants will be given to enterprises outside of the capital city throughout the country.
- *Type of advisory service:* Higher grants will be given to support projects which (a) have a lasting effect on the companies' performance; (b) are more complex (e.g. projects involving environment and / or health and safety components as well as the projects contributing to the improved efficiency and cost reduction by introduction of the appropriate software) and (c) involve consultancy services underrepresented in the market (e.g. energy efficiency, engineering projects, some others).

BAS assistance at the enterprise level will be complemented with the following market development activities in order to maximise the Programme's transition impact in Moldova:

- *Visibility and dissemination:* The BAS Programme will take steps to promote the use of business advisory services, especially in more rural regions where consultancy is low in demand; as well as stimulate demand for more sophisticated consultancy services by, for example, disseminating successful case-studies to entrepreneurs. BAS will organise more seminars related to international best practices to demonstrate the potential benefits for local entrepreneurs especially with regards to energy efficiency. BAS team will work closely with local media to ensure BAS activities coverage.
- *MSME and consultancy training:* Capacity building for consultants will be organised to help broaden the country's supply and quality of local advisory services. The BAS team will continue to address existing gaps in the supply of advisory services by offering specific training programmes or workshops (for example, in energy audit, targeted at both consultants and MSMEs)

- *Support to and development of existing local institutions:* BAS will continue supporting local institutions that contribute to the development of MSMEs and the business advisory services market. This will include efforts on supporting consolidation of the local consultancy industry, including Moldovan Consulting Industry Exhibition organization and promotion of international best management and consultancy practices and business innovation.

Cross-cutting issues

In order to address cross-cutting issues that are pertinent to MSME sector development in Moldova, the TAM/BAS Programme will focus its effort on projects located in the regions outside of Chisinau. TAM/BAS will also continue devoting efforts to supporting projects with the aim of enhancing energy efficiency, as well as supporting measures that increase female participation in the private sector.

Contribution to EBRD policy dialogue

By thoroughly analysing the business environment and clearly identifying the challenges faced by the MSME sector, TAM/BAS further strengthens the EBRD's policy dialogue toolkit. Future challenges for the government (among others) are identified as improving efficiency of the tax administration, faster granting of construction permits and improving access to land, reducing trade barriers and continuing to fight corruption. In business perception, access to credit for MSMEs remains a major issue of concern following the financial crisis. The TAM/BAS Programme will continue to engage in dialogue with the Moldovan agencies and will work in partnership with the Bank's Small Business Finance Group and other initiatives geared to promoting the development of the MSME sector.

EBRD BAS Programme extension to Transnistria region

Following discussions between the EBRD Resident Office in Moldova, the BAS Office in Moldova and the Moldovan authorities, the BAS Office in Chisinau completed in 2009 the feasibility study on potential extension of the BAS programme to Transnistria region, including identification of potential candidates for the BAS Programme. The candidate companies were selected on the basis of clear and transparent criteria: i) fully private companies, which were established originally as greenfield companies, ii) companies that do not involve politically exposed persons either in ownership or in management, and iii) companies that are either registered or willing to be registered in Moldova (under either permanent or temporary registration). Implementation has started with a limited number of pilot projects at the first stage (no more than 3 before an assessment of the pilot projects is made) and further expansion will be considered on the basis of the results of the pilot stage. This approach was discussed in detail and agreed with Moldova authorities, which are closely informed about the implementation of pilot projects. In June 2010, the first contract for BAS project in Transnistria region was signed with a small private textile company to help increase value added of its production.