

PUBLIC

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

STRATEGY FOR MOLDOVA

**REPORT ON THE INVITATION
TO THE PUBLIC TO COMMENT**

PUBLIC

1. INTRODUCTION

The objective of this report is to summarise the key comments received from stakeholders during the consultation period dedicated to the Bank's Strategy for Moldova and provide the Bank's management responses to these. The comments received during the public consultation period were reviewed by the Bank's management and reflected in the Strategy as appropriate.

In accordance with the EBRD Public Information Policy (PIP), the draft Strategy for Moldova was posted on the EBRD website in English and Romanian for 45 calendar days from 20 September 2017. The public was invited to submit comments on the draft Strategy no later than 4 November 2017. For information, the previous Strategy was also made available on the website in English and Romanian, at <http://www.ebrd.com/moldova.html>.

Information about the public consultation process was posted on the EBRD's dedicated webpage "Have your say", which highlights the latest opportunities for the public to comment on the Bank's policies and strategies under review. In addition, targeted notifications of the consultation process were sent to local and international civil society organisations (CSOs) that have expressed interest in the Bank's work in the country. The start of the review process was also advertised through social media platforms (e.g. Facebook and Twitter).

Two letters on the draft Strategy for Moldova were received during the public consultation period.

In line with the Bank's increased efforts to involve civil society at an early stage of country strategy development, the EBRD organised a consultative meeting with CSOs on 12 July 2017 to gather civil society's feedback during the preparatory phase leading to the draft Strategy. The consultation provided a platform for dialogue between civil society representatives and EBRD staff involved in the Strategy preparation process. A summary of the meeting and list of participating organisations are provided in the Annex to this report.

2. PUBLIC COMMENTS AND STAFF RESPONSES

Reference	Comment	EBRD Response
Strategic Directions		
Green economy	<p>The CSO comment recommends that the EBRD should support projects oriented towards the implementation of the green economy principles, national SDGs and GGIs, and provides support to green SMEs.</p> <p>The comments also call for preventing or eliminating investment projects which support outdated / polluting technologies, or not in line with EU/national standards.</p> <p>Another CSO comment recommends that the EBRD should avoid governmental guarantees for loans.</p>	<p>Through its projects, the EBRD will aim to promote green economy, in line with its Board approved Green Economy Transition approach.</p> <p>Under the first priority of its Strategy for Moldova, the EBRD aims to support the increase of power generation from domestic renewable sources, improve regulatory standards to promote energy resilience and expand networks for domestic and inter-country energy connectivity – in line with Moldova’s 2030 Energy Strategy and interconnection studies.</p> <p>The Bank will also provide support to healthy client banks through dedicated target credit lines, including for energy efficiency, climate finance, MSME and DCFTA support.</p> <p>The Bank will also promote increased energy and resource efficiency gains realised across sectors, including by funding bankable opportunities in the renewable energy sector.</p> <p>Furthermore, the EBRD will ensure compliance with EU environmental standards in line with the EBRD performance requirement (PR3) and Moldova’s EU Association Agreement provisions.</p>

Environmental and Social Implications		
<p>Assessment and Management of E&S Impacts, Stakeholder Engagement</p>	<p>The public comment calls for ensuring the public with access to information, public participation, access to justice in environmental matters and meaningful stakeholder engagement, in accordance with the provisions of the Aarhus Convention.</p> <p>Another CSO comment recommends that the EBRD should organise proper public consultations inviting environmental NGOs on EIA reports and procedures for all investment projects which require such a procedure.</p> <p>The CSO also recommends organizing a final country strategy consultation/presentation, inviting NGOs and environmental experts.</p>	<p>The EBRD will ensure that direct, indirect, cumulative and transboundary environmental and social impacts of projects are appropriately assessed and mitigated, and that meaningful stakeholder engagement is carried out.</p> <p>Such stakeholder engagement will be carried out bearing in mind the spirit and principles of the UNECE Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention).</p> <p>Private and public clients and the government can moreover benefit from environmental and safety capacity building to ensure adoption of best international practice.</p> <p>According to the EBRD's revised process for adopting country strategies, only one public consultation on the strategy for Moldova has been organised at an early stage of the country strategy process (on 12 July 2017) – in order to allow for the input from civil society and other relevant stakeholders to be effectively integrated in the final strategy draft.</p> <p>Nevertheless, the EBRD will continuously engage with civil society and other stakeholders in Moldova, including thorough dialogue, consultation and cooperation through its Civil Society Capacity Enhancement Framework.</p>

Summary of EBRD meeting with civil society – 12 July 2017, Chisinau

On 12 July 2017, the EBRD Resident Office in Chisinau hosted a consultation meeting with civil society representatives to discuss the Bank's Strategy for Moldova. The event was attended by five participants from local civil society organisations, including the Institute for Public Policy, Transparency International Moldova, Institute for Development and Social Initiative (IDIS Viitorul) and National Youth Council of Moldova.

Following a presentation of the Bank's activities and key operational priorities in the forthcoming EBRD Strategy, the floor was opened for a roundtable discussion on a wide range of topics, including transparency and good governance, economic competitiveness and private sector development, economic inclusion and EU integration.

Participants welcomed the Bank's approach in consulting civil society at an early stage of the country strategy process and encouraged the Bank to pursue dialogue with civil society as part of institutional decision-making processes. CSO representatives furthermore broadly endorsed the main operational priorities set forth in the upcoming Country Strategy for Moldova.

Transparency and good governance

Transparency and corruption are main concerns for civil society in Moldova. Amid revelations that \$1 billion (equivalent to 12% of Moldova's GDP) had disappeared from three leading banks nearly bankrupting the country, several CSOs organised anti-corruption protests that eventually garnered the support of some political parties. Although public authorities are perceived to have made some progress over the last year in tackling the problem, corruption remains a serious issue of concern and is regarded by citizens as a widespread phenomenon. CSO representatives claim that corruption affects both the central and local levels of government, with public resources being spent in a preferential manner, including through opaque public procurement procedures and selective support of private companies. Slow progress on banks' assets recovery investigation was also cited. CSOs in Moldova consider that international financial institutions should maintain the highest standards of transparency and accountability in the selection of business partners for their projects.

Under the first priority of its Strategy for Moldova, the EBRD aims to improve governance by leading in the restructuring of the banking sector, including through vigorous policy advocacy of banking sector rehabilitation in concert with the IMF, the EU and other development partners. The Bank will undertake policy dialogue, selective co-investment with reputable investors to restore corporate governance, increase shareholders' transparency, and overhaul management in key banks. The EBRD will also promote business climate improvement (including gender-responsive investment climate reform) through its Investment Climate and Governance Initiative, also through the EBRD-backed Economic Council. The Bank moreover follows its own rigorous internal processes before deciding to invest in any project and during project implementation, and takes very seriously the need to balance the merits of its potential projects with its focus on integrity due diligence. This covers companies and sponsors, as well as significant contractors and other possible beneficiaries of any Bank support.

Economic competitiveness and private sector development

Civil society organisations expressed concern about the business climate and private sector competitiveness in Moldova. According to CSOs, SOE restructuring remains slow, due to various vested interests, while additional improvements to corporate governance and business conduct are required in most enterprises. There are also several factors constraining the development of the private sector in the country, including poor business climate, particularly the lack of a level playing field for private firms, non-transparent procurement practices, and a migration-driven decline in labour force availability combined with demographic challenges and skill gaps. Although Moldova has had some success in attracting foreign direct investments, civil society stakeholders consider that the environment for businesses remains difficult. They claimed that access to finance remains limited for SMEs, in particular for companies located outside the more advanced regions, as the banking sector remains tainted by the recent scandals. Another issue raised was the wide-spread unfamiliarity of Moldova's SMEs with EU quality standards. Some CSOs pointed out the government's often inept micromanagement of the private sector, including selective funding of start-ups, which crowds out genuine start-ups., and cited the need for better regulation.

Civil society representatives also point to the fact that poor water security and waste management were undermining overall competitiveness.

The EBRD will enable capacity-building and scaling up of the private sector by promoting a robust and capable SME sector (including women-led companies), improved skills and quality standards for SMEs, as well as an improved business climate. The EBRD will offer support to the best SMEs for scaling-up ("Blue Ribbon programme") and will promote export-oriented FDI in free-trade zones, with a view to developing regional manufacturing platforms. The Bank will also provide support to healthy client banks through dedicated target credit lines (MSME, DCFTA support, energy efficiency, climate finance, trade finance, risk sharing products, women in business), as well as selective support to bankable microfinance, leasing companies and other non-bank financial institutions. Furthermore, the EBRD will promote water/wastewater sector consolidation, private sector participation, including through PSCs and PPPs, where feasible. On a selective basis, the Bank will also explore pre-privatisation and privatisation support opportunities.

Economic and social inclusion

With regard to economic inclusion, CSOs draw attention to the fact that massive emigration, demographic decline and shortcomings in the education system are the main challenges for economic and social inclusion in the country. Accordingly, Moldova's labour force participation rate is significantly below regional peers and well below the EU average, with only approximately 40 per cent of the population (age 15+) currently in employment. CSOs claim that educational levels are below EU standards and companies struggle to find qualified workers, leading to a mismatch between the skills of young labour market entrants and the requirements of the labour market. Civil society representatives also highlight that there are notable gender inclusion gaps as regards both employment and entrepreneurship.

In light of the major inclusion challenges facing Moldova, the EBRD will aim to promote inclusive and gender-equal growth, in line with its Board approved Gender Strategy and Economic Inclusion Strategy. The Bank will seek to promote inclusive growth at the project level. In this context, the EBRD will focus on addressing the challenges that young people

face in obtaining the skills that are needed in the labour market and accessing decent employment or entrepreneurship opportunities on this basis. An additional focus will be on populations in less advanced regions within the country. Gender considerations are mainstreamed across the EBRD's inclusion activities.

EU integration

Civil society organisations in Moldova play a key role in enhancing public awareness of the EU integration process and organizing public debates about the EU-Moldova Association Agreement (including the Deep and Comprehensive Free Trade Agreement - DCFTA). Since Moldova's signing of the Agreement, notable differences in public opinion about whether Moldova should align itself with the EU or Russia continue to challenge Moldova's path towards EU integration. A CSO report on the progress in implementing the Association Agreement noted the lack of cooperation between state institutions and civil society. According to a Public Opinion Barometer results, 44 percent of the public believes the authorities' actions will not help to move the country towards EU integration. Once again, unfamiliarity with EU quality standards, which is prevalent outside the free economic zones, was cited as one of the challenges to address in this regard.

The EBRD will support the roll out of the DCFTA facility (EU4Business-EBRD Credit line) with PFIs and additional focus on women-led companies through its Women in Business programme (WiB). The Bank will also provide direct cross-sector support to companies with viable core business model, good integrity to promote skills transfer, forward/backward linkages and adoption of EU standards. Potential emphasis will be placed on bankable agribusiness companies.

List of participating organisations to the consultation meeting in Chisinau on 12 July 2017

1. Institute for Public Policy
2. Transparency International Moldova
3. Institute for Development and Social Initiative (IDIS Viitorul)
4. National Youth Council of Moldova