

# STRATEGY FOR MOLDOVA 1994-95

## SUMMARY

### SYNOPSIS

The EBRD's principal operational objectives in Moldova are as follows:

- **Financing of investment in productive sectors.** This objective will be pursued in two main ways. First, the EBRD will focus on the development of the export potential of the agricultural sector of Moldova, which represents a major source of economic activity and employment. This will initially focus on the wine and horticultural subsectors where Moldova has a comparative advantage. Second, the Bank will adopt a proactive approach to identify and support private sector investment in manufacturing. This will involve more intense marketing and the financing of joint venture projects with high demonstration impact to induce foreign investment in Moldova.
- **Financial sector strengthening.** The EBRD will focus its assistance to a limited number of viable financial institutions with a view to improving their operational effectiveness. This will lead to increased competition in the sector and complement, at a bank-specific level, the financial sector restructuring activities undertaken by other international financial institutions (IFIs). The EBRD's support for these financial institutions will comprise a small loan or a credit line which will be targeted towards private SMEs.
- **Critical infrastructure investment.** The EBRD will proceed with specific infrastructure projects, prioritising those that contribute significantly to removing immediate bottlenecks for economic and private sector development. In light of Moldova's high level of energy dependency, the initial focus would be placed on energy efficiency. Private sector involvement will be sought in telecommunications, while transport investments will be carried out in parallel with the privatisation of the road transport services industry. The infrastructure portfolio will be developed in close coordination with the World Bank.

*This document is based on the EBRD's Strategy for Moldova approved on*

*11 April 1994.*

## STRATEGY

### 1 PRODUCTIVE SECTOR DEVELOPMENT AND PROMOTION OF THE PRIVATE SECTOR

First, the EBRD will focus its attention on the development of the export potential of the Moldovan agricultural sector, which represents a major source of economic activity and employment in the country. Second, the EBRD will seek to identify and support private sector investment in manufacturing. This will involve more intense marketing and the financing of projects with high demonstration effects on foreign investment in Moldova.

The wine sector is one of the more dynamic sectors of the Moldovan economy and can represent an important source of foreign exchange earnings. The EBRD will support Moldova to identify new markets, increase wine exports and generate additional foreign exchange revenues. To this end, a project designed to achieve a competitive private wine industry is under preparation; it will seek to: modernise vinification technologies, facilitate the privatisation/restructuring of a number of wineries, construct a new glass container factory capable of producing high quality packaging material, and improve marketing techniques.

Food processing companies (canning and packaging facilities) represent a major outlet for horticultural producers. Processed horticultural products such as fruit juices or canned vegetables may represent an important source of foreign exchange based on Moldova's significant agricultural sector. The EBRD will:

- determine products for which Moldova has a strong comparative advantage and market opportunities;
- identify a short list of specific companies and potential investments which would allow it to exploit that comparative advantage;
- provide preliminary technical and financial feasibility reports on the proposed investments;
- identify and eventually fund projects in the agribusiness and food sector in conjunction with foreign investors offering relevant management, marketing and operations support. The focus is likely to be on fruit pulp and juices, fruit and vegetable canning, dairy products and meat processing and packaging plants.

Besides its focus on the agriculture sector, the EBRD will seek to boost economic growth through investment in the private sector. The Bank intends to support its growth through individual transactions with strategic partners and through the financial sector for SMEs (see section 2).

The EBRD's private sector development strategy will have three elements:

- finance joint-venture projects;
- finance SMEs through local intermediaries;
- specific enterprise restructuring and privatisation.

## **2 SUPPORT OF THE FINANCIAL SECTOR**

The EBRD's strategy is to complement, at the level of individual banks, the financial sector restructuring activities undertaken by the IMF and the World Bank. The EBRD's main goal is to assist a limited number of viable financial institutions to increase their operational performance. The EBRD intends to work both with nascent private and the former state banks. This action at the corporate level would increase competition, have a catalytic effect regarding foreign investment, and provide support for emerging SMEs.

The EBRD will coordinate its activities with the World Bank and other IFIs. These operations should be particularly effective in strengthening banking supervision, accelerating the enactment of a bankruptcy law and undertaking a comprehensive programme to address the issue of bad enterprise debts.

## **3 SUPPORT OF CRITICAL INFRASTRUCTURE**

The EBRD will give high priority to projects that contribute to the removal of immediate bottlenecks for economic and private sector development. Key areas that the Bank is currently investigating include energy, telecommunications and transport. This work is being undertaken in close cooperation with the World Bank, building up on the comparative advantage and financial commitment levels of each institution.

### **3.1 Energy**

The EBRD will support Moldova to improve the efficiency of allocation of natural resources and financing to reduce heat, steam and water losses, to increase the reliability and efficiency of the domestic power system, to reduce the pressure on the foreign trade balance, and to support institutional and policy reforms in the energy sector. To this end, the EBRD will support activities designed to improve energy efficiency (especially in the area of district heating) and power plant operations.

### **3.2 Transport**

The EBRD will examine the investment possibilities with a view to increasing the efficiency of the transport system through modernisation, regulatory and price reform, and improved response to new demand patterns. In this context, the EBRD will give special attention to road transport deregulation and private sector development potential in this service sector.

### **3.3 Telecommunications**

Following the government's intention in the sector, the EBRD intends to contribute to the development of a competitive private sector in telecommunications. Technical cooperation support is being considered in relation to both sector institutional development and project implementation.

## **COOPERATION WITH OTHER IFIs**

The above operational objectives have been identified taking into consideration the initiatives of other multilateral institutions. In moving forward the EBRD will also liaise closely with them regarding the identification, preparation and implementation of related projects.

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