

Strategy for Moldova 1996 - A Summary

Current activities

The European Bank for Reconstruction and Development (EBRD) is playing a major role in support of Moldova's transition to a market economy. As of May 1996 eight projects had been approved for a total project cost of ECU 183 million and EBRD investment of ECU 107 million. In the current portfolio are the first major private joint-venture financing project in the country, a large agro-processing operation, two financial sector and four infrastructure operations.

In spite of a shift towards investment project financing, technical cooperation and institutional development remain an important component of the Moldovan programme. Fifteen technical cooperation projects have been approved for an additional ECU 4 million since 1994, bringing the total level of technical cooperation projects in Moldova to ECU 4.8 million for 20 projects.

Strategy for 1996-97

To further promote the transition to a market economy, the EBRD will:

- pursue **private sector investment and agro-processing** opportunities, with a particular focus on export and development;
- increase support of **the financial sector**;
- undertake selective financing of **critical infrastructure investment**; and
- build up a strong **implementation capacity** in cooperation with the Moldovan authorities.

These objectives were agreed with the Moldovan authorities in March 1996.

Private sector investment and agro-processing opportunities

The EBRD continues to support private sector development in Moldova with a particular emphasis on export development. This support will aim at the following strategic targets:

- the nascent local private sector;
- the agro-processing sector;

- foreign joint-venture investment opportunities;
- large public enterprises with potential for privatisation and strategic investment; and
- opportunities for private sector investment in infrastructure.

The plan of action will involve:

- Support for the development of small and medium-sized enterprises (SMEs) through development of local financial intermediation for both loan and equity.
- Further EBRD studies on products and/or branches for which Moldova has a strong comparative advantage and market opportunities. A new Bank approach to the agricultural sector will be defined, with a view to increasing Moldova's potential for export to the Commonwealth of Independent States and Western markets.
- Identification of potential agro-processing projects in conjunction with foreign investors offering relevant management, marketing and operations support.
- The pursuit of marketing activities in selected countries with established commercial links with Moldova, promotion of Moldova's investment opportunities abroad and identification of potential foreign joint-venture investment opportunities.
- Consideration, on a case-by-case basis, of the possibility of supporting specific enterprise restructuring and privatisation assignments. This will focus on large companies with appropriate business potential and government support for privatisation.
- Implementation of the Wine Export Promotion Project. As requested by the Moldovan authorities, the Bank may explore the possibility of increasing its role in the wine sector and ways of promoting private foreign investment through provision of additional financing and promotion of pilot privatisation operations.
- The pursuit of opportunities for private infrastructure financing.

Strengthening of the financial sector

The EBRD will pursue a diversification strategy both in terms of banks and financial products. Accordingly, the EBRD will continue to work both with nascent private and large commercial banks. This will increase competition within the banking system, contribute to the corporate development of these banks and, in specific cases, support emerging SMEs. In product terms, the Bank will seek to introduce a micro-lending facility and equity. The EBRD's activities complement the financial sector restructuring activities undertaken by the International Monetary Fund (IMF) and the World Bank. The EBRD will:

- Continue its close monitoring of the two existing credit lines (Victoria Bank and Moldagroindbank) and of the financial status and corporate development of each of these banks.
- Continue to pursue preparation of a micro-lending facility involving several local banks. This facility is expected to include both a micro-credit component and an institutional development component to build micro-loan processing capacity.
- Consider the possibility of introducing equity financing in Moldova through sub-regional investment funds.
- Provide further support in the development of the private banking sector either for new banks or through specific facilities with existing private banks.
- Continue close coordination with the IMF and the World Bank in the financial sector.

Critical infrastructure investment

The EBRD has financed about ECU 40 million to date for two infrastructure projects, in the energy and roads sectors. The following guidelines will be followed in the development of the Bank's future infrastructure programme in Moldova:

- Active monitoring of existing projects and strengthening of local implementation capacity.
- Strict application of selection criteria for future infrastructure projects. Criteria will include appropriate revenue generation, limited investment size, contribution to energy efficiency or exports and additionality.
- Enhancing the EBRD's capacity to mobilise private investment for infrastructure financing.

Close coordination with the World Bank will be maintained on the basis of the collaboration already established in the energy and transport sectors.

Energy

The EBRD will continue to support Moldova in improving energy efficiency. The financing of investments in the sector will depend on the implementation pace of the approved projects and the government's firm stance on adopting appropriate pricing policies for electricity and district heating. The EBRD will:

- place particular emphasis on the implementation of the Energy Efficiency Improvement Project, which aims to improve the efficiency of the district heating system in Chisinau, and to enhance the Bank's environmental mandate in this sector;
- consider the possibility of financing a second energy efficiency project with a broader geographical and sectoral scope following the successful implementation of the above-mentioned project;
- closely coordinate with the World Bank, USAID and Tacis, which are addressing different aspects of a broader energy efficiency programme.

Transport

The EBRD will seek to increase the efficiency of the transport system through modernisation, regulatory and price reform, and improved response to new demand patterns. Particular attention will be focused on cost recovery. The following plan of action has been drawn up for each sector:

- **Roads:** The EBRD will monitor the implementation of the road improvement project. Technical assistance is being provided for project management (including engineering supervision) and to assist with road maintenance efficiency and the privatisation of road construction and maintenance operations.
- **Civil aviation:** The EBRD is processing the modernisation requirements of Chisinau airport and the air navigation system. The scope of the project is being determined by a number of factors, such as safety and security needs.
- **Ports:** The EBRD will continue to play a key role in the financing of the Giurgiulesti oil

terminal on a private concession basis. The project would introduce an innovative project financing structure in the region and mobilise a significant share of commercial co-financing.

- **Railway system:** The EBRD will consider working on the restructuring of the railway sector in collaboration with the World Bank. Following the completion of a restructuring study, the EBRD may consider a project on establishing a commercially-led, market-oriented and technically efficient railway operation.

Municipal utilities

The EBRD's strategy is to support a decentralised approach which addresses the issues of inadequate funding and poor performance of local service enterprises. Restructuring of municipal utilities and service enterprises, in particular through improved revenue collection, cost recovery and other measures leading to corporatisation of the utilities, will be promoted. The Bank's strategy will also target private sector involvement in the provision of local public services. The EBRD will:

- Pursue the development and partial financing of an investment programme for the improvement of the water and waste-water systems. This will address the most urgent needs in this sector in Chisinau, benefiting almost 20 per cent of Moldova's population.
- Undertake further technical assistance programmes aimed at strengthening the operational management, financial performance and improvement of cost recovery of the Chisinau water utility.

Telecommunications

Following the government's agreement to privatise the telecommunications sector, the EBRD intends to contribute to the development of a competitive private sector in this field by assisting Moldovan authorities in:

- defining strategic objectives and regulatory policies to ensure appropriate modernisation and expansion by the private sector of the telecommunications sector; and

- carrying out a procedure for privatisation which will attract high-quality and technically competent strategic investors to bring about maximum economic benefits for the country.

After the privatisation of Moldtelecom, the EBRD may consider:

- Participating in the financing of the development of the future joint-venture company to be established with a foreign strategic partner.
- Offering technical cooperation in relation to both sector institutional development and future project implementation. The Bank will continue its programme of technical co-operation in the following areas: i) preparation of an adequate business plan; ii) legal advice on the structuring of selected joint ventures; and iii) defining sector restructuring options.

Implementation

In light of the significant increase in commitment levels, appropriate attention and operational resources must be allocated to project and portfolio monitoring and implementation support. This requires significant technical assistance for each borrower in both infrastructure and financial sector operations. It also requires close and intensive monitoring by EBRD staff at the early stages of project implementation.

Cooperation with other international financial institutions

The EBRD maintains close cooperation with other international financial institutions and the European Union in defining and implementing its own strategy. The Bank will pursue active coordination with these institutions. The EBRD will also continue its cooperation with major donor countries active in Moldova, including Germany, the Netherlands, Switzerland and the United States.

This document is based on the EBRD's Strategy for Moldova, approved on 8/9 May 1996, which is for official use only.