DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR MOLDOVA

As approved by the Board of Directors at its meeting on 26 July 2005

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Moldova is committed to and has made progress in applying the principles of multi-party democracy and pluralism in accordance with Article 1 of the Agreement Establishing the Bank.

The record on democratic and market reform over the past strategy period has been uneven. National elections in March 2005 generally conformed to international standards for democratic elections according to the Organisation for Security and Co-operation in Europe (OSCE). Nevertheless, they fell short in some areas that are central to a genuinely competitive election process, such as media access. The ruling Communist Party of Moldova (CPM), which once again won a majority of seats in the recent parliamentary elections, reinforced its commitment to European integration in the course of the campaign. This is a welcome development, as it entails political and economic policy adjustments that, if implemented successfully, would be fully consistent with the Bank's Article 1 mandate. Moreover, political developments in neighbouring countries Ukraine and Romania reinforce these policy shifts. On the issue of the breakaway territory of Transnistria, a recently proposed Ukrainian plan has gained the conditional support of the Moldovan parliament and the endorsement of the OSCE Parliamentary Assembly; however, full realisation of the plan will require a number of difficult intermediate steps and an unwavering commitment from all the parties to the five-party talks on a resolution.

The macroeconomic performance of the Moldovan economy over the past two years has been good. The gross domestic product (GDP) grew in real terms by 6.3 and 7.3 per cent in 2003 and 2004, respectively. High levels of worker remittances and fast growth in the region were the main drivers of economic growth. Fast domestic credit growth and strong foreign currency inflows have exerted significant pressure on domestic prices and inflation has once again surged to double digits. The sharp currency appreciation in 2004 has had a mild effect on external competitiveness as exports continue to grow supported by strong economic growth in the region. Fiscal performance has improved pursuant to strong indirect tax receipts. The government has pursued a prudent fiscal policy managing to sustain consolidated budget surpluses in both 2003 and 2004, thus providing a stronger base for debt servicing. Social indicators have also improved, mostly due to the remittance financed safety net. However, Moldovan indicators still lag behind the regional averages. In 2004 Moldova's external debt burden was considerably reduced to 74 per cent of GDP and its debt service improved. Foreign direct investment (FDI) flows increased in 2004 following poor inflows in 2003, but remain significantly below the economy's needs. The difficult business climate, government interference and the slow pace of privatisation all hampered the inflow of high quality foreign investment. The banking sector is growing in line with the economy but weaknesses related to corporate governance, supervision and lack of transparency in banking ownership need to be addressed to ensure the sector's potential is realised. Corruption remains a serious problem, undermining the administrative and legal efforts to improve the business environment.

Moldova has made some progress in reform over the last strategy period. Formal trade barriers and administrative hurdles with respect to business registration, licensing and tax administration were reduced. The "Guillotine Law" adopted in February 2005 is expected to lead to further cuts of red tape. Some progress was also made in the telecom sector, which was fully liberalised in 2004. Despite these improvements important weaknesses remain. Privatisation has lingered in the past two years and privatisations in key areas such as energy and wineries were either postponed or failed to attract sufficient interest. Reform in the energy sector and municipal infrastructure sector advanced slowly or not at all. Although commercial lending volumes have continued to grow, access to long-term finance for investment projects remains a significant barrier for entrepreneurs. While in the short run growth is likely to continue, long term prosperity will depend on renewed efforts to implement structural reforms, strengthen institutional capacity building and improve the investment climate.

Following its early transition achievements, Moldova should implement a medium-term agenda of deeper institutional and structural reforms to consolidate the conditions for long-term growth and poverty alleviation. In particular Moldova will need to address the following transition challenges:

- *Establishing fair competition and improving the investment climate.* Moldova needs to reduce government interference, strengthen its regulatory and competition authorities, streamline its legal framework (particularly with respect to registration, licensing and operation of businesses), remove informal and administrative barriers to business and step-up its fight against corruption.
- *Supporting economic diversification.* Moldova's overwhelming dependence on agriculture and food industry as well as its excessive reliance on CIS markets (in particular Russia) increase Moldova's vulnerability to adverse shocks. In order to achieve long-term sustainable growth, Moldova needs to decrease its dependence on the agricultural sector and diversify its export markets.
- *Redressing the balance between the capital city and the regions.* Regionally balanced economic development throughout the country will require increased investment in regional infrastructure and adequate support for the emergence of MSEs and SMEs in rural areas.
- *Advancing energy and municipal sector reform.* Further regulatory reform is required to promote fair competition and efficiency, the remaining state-owned generation assets and distribution companies should be privatised and the district heating systems need restructuring and modernisation. The municipal infrastructure sector requires commercialisation, tariff reform and substantial restructuring.
- *Ensuring debt sustainability.* Prudent fiscal policy and tight monetary policy will be required to service the large stock of external debt and ensure macroeconomic stability.

Moldova's Economic Growth and Poverty Reduction Strategy Paper and the EU-Moldova Action Plan, adopted by the government respectively in May 2004 and February 2005, provide an ambitious road map to meet these challenges. The Bank will - within the limits of its mandate - assist Moldova in the implementation of this road map. In the context of the Early Transition Countries (ETC) initiative the Bank will draw on the additional instruments and resources available to it. In particular, the Bank will pursue the following operational objectives:

- *Financial Institutions.* The Bank will provide SME and MSE credit lines and continue to implement its Trade Facilitation Programme (TFP) as well as its Medium-sized Co-financing Facility (MCFF) with local banks to overcome lending constraints caused by single borrower exposure limits and portfolio concentration. 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 or leasing. On the equity side, the Bank may assist in the privatisation of Banca de Economii and consider investment in leasing companies and mortgage providers. The Bank will further enhance its support for the development of micro-finance. In order to support the development of Moldova's regions, the Bank will include a regional component in its micro-finance programmes. The Bank will explore opportunities to support, through both technical assistance and investment, the emergence of the non-banking financial sector.

- *Private Enterprise.* The Bank will continue to pursue investment opportunities in all enterprise sectors including, without limitation, the food processing, manufacturing, retail and property sectors. Larger, well performing, companies will be provided with direct financing through ETC instruments such as the MCFF and the Direct Investment Facility (DIF). The Bank will facilitate FDI 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 will be provided to agribusinesses, upon the establishment of a 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.
- *Infrastructure.* Given Moldova's sovereign debt capacity constraints, the Bank will primarily seek to support private infrastructure investments.

The Bank will underpin the aforementioned operational objectives by an ongoing policy dialogue on investment climate, enterprise restructuring and rule of law in consultation with other IFIs and bilateral donors. The Bank will ensure that all operations in Moldova are subject to the Bank's Environmental Policies and Procedures. In the context of the ETC initiative, the Bank will seek increased donor grant financing to fund project preparation and implementation, support legal transition work, institution building and policy dialogue and leverage the Bank's financial support to key sectors.

LIST OF ABBREVIATIONS

ANRE	National Energy Regulatory Agency
ANRTI	National Regulatory Agency for Telecommunications and Information Technologies
BAS	Business Advisory Services
BSTDB	Black Sea Trade Development Bank
CAS	Country Assistance Strategy
CDDP	Christian Democratic People’s Party
CIS	Commonwealth of Independent States
CPM	Communist Party of Moldova
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFID	Department for International Development
DIF	Direct Investment Facility
DMB	Democratic Moldova Bloc
DSSM	Declaration of Stability and Security for the Republic of Moldova
EGPRSP	Moldova’s Economic Growth and Poverty Reduction Strategy Paper
ENP	European Neighbourhood Policy
ETC	Early Transition Countries
EU	European Union
Euro or €	Euro, the currency of the member states of the EU participating in the European Monetary Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HACCP	Hazard Awareness And Crucial Control Points
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institution
ILO	International Labour Organisation
IOM	International Organisation for Migration
IOSCO	International Organisation of Securities Commissions
ISO	International Organization for Standardization
Leu or MDL	Moldovan Leu, the currency of Moldova
MCFF	Medium-sized Co-financing Facility
MIGA	Multilateral Investment Guarantee Agency
MNCS	National Commission for Securities of Moldova
MSEs	Micro and Small-sized Enterprises
NBM	National Bank of Moldova
OSCE	Organisation for Security and Co-operation
PSP	Private Sector Participation
RFC	Rural Finance Corporation
SAC	Structural Adjustment Credit
SDC	Swiss Development Cooperation
SDR	Special Drawing Rights
SECO	Swiss State Secretariat for Economic Affairs
SIDA	Swedish International Development Cooperation Agency

SMEs	Small and Medium-sized Enterprises
SROs	Self-regulatory organisations
TACIS	Technical Aid to CIS
TAM	Turn Around Management
TFP	Trade Facilitation Programme
UNDP	United Nations Development Programme
US	United States of America
USAID	United States Agency for International Development
USD or $	United States Dollars, the currency of the United States of America
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation

COUNTRY STRATEGY

1. The Bank's Portfolio

1.1 Overview of Bank Activities to Date

As of June 2005 the Bank has signed 36 projects for a cumulative business volume of €177.7 million of which 83 per cent has been disbursed and €70 million are operating assets. The average project size (excluding sovereign projects) is €2.9 million, highlighting the relevance of the Early Transition Countries (ETC) initiative for Moldova.

The infrastructure sector (transport, municipal and energy) historically dominates the Bank's portfolio, representing 44 per cent of total assets. However, Moldova's weak sovereign debt capacity combined with a weak regulatory framework and a flagging privatisation process, have prevented further infrastructure investments. Since November 2001, the Bank has exclusively invested in the banking and agribusiness sectors which represent respectively 35 per cent and 21 per cent of the Bank's portfolio. During the period covered by the previous country strategy, nine new projects were signed in these sectors for a total amount of €20.2 million. For a more detailed overview of the Bank's projects, please refer to Annex 1.

Table 1: Commitments and Net Portfolio as of June 2005

Sector	**COMMITMENTS (€ million)**					**NET PORTFOLIO (€ million)**		
	No. of Projects	Total Project Cost	EBRD Funding	EBRD % of Total	Disbursed	No. of Projects	Portfolio	% of Portfolio
Financial Institutions	**22**	**79.2**	**62.1**	**35%**	**45.9**	**17**	**27.0**	**31%**
Infrastructure	**8**	**152.1**	**77.8**	**44%**	**64.4**	**7**	**50.6**	**59%**
Energy	*3*	*65.0*	*33.9*	*19%*	*28.6*	*3*	*29.8*	*35%*
Water and Sewage	*1*	*31.7*	*17.1*	*10%*	*17.1*	*1*	*12.2*	*14%*
Transport	*3*	*54.2*	*25.9*	*15%*	*17.9*	*3*	*8.6*	*10%*
Telecommunications	*1*	*1.3*	*0.8*	*0%*	*0.8*	*0*	*0.0*	*0%*
Private Enterprise	**6**	**66.6**	**37.8**	**21%**	**37.6**	**4**	**8.4**	**10%**
Agribusiness	*5*	*65.8*	*37.4*	*21%*	*37.4*	*3*	*8.0*	*9%*
General Industry	*1*	*0.8*	*0.4*	*0%*	*0.2*	*1*	*0.4*	*0%*
Country Total	**36**	**298.0**	**177.7**	**100%**	**147.9**	**28**	**86.0**	**100%**

1.2 Implementation of the Previous Country Strategy

The Bank's 2003 country strategy aimed to (i) strengthen the banking sector and financial intermediation, (ii) encourage private sector development by providing direct and indirect financing as well as advisory services to Small and Medium Sized Enterprises (SMEs) and Micro and Small Sized Enterprises (MSEs), (iii) support private sector investment in key infrastructure subject to a suitable operational and regulatory environment, (iv) address the problems affecting the Bank's portfolio and (v) pursue with the government a policy dialogue on the investment climate.

During the previous strategy period, the Bank was the main provider of long-term financing to the Moldovan banking sector and extended its cooperation to one new bank, increasing the total number of partner banks to five. Among others, the Bank developed a pilot medium-sized co-financing facility (MCFF) pursuant to which two sub-projects in the agribusiness sector and one sub-project in the metal industry have been financed to date. Additionally, the Bank extended its trade facilitation programme (TFP) to two new banks.

Because Moldova's economy is essentially dominated by SMEs and MSEs, direct financing opportunities are rare. During the strategy period, the Bank provided one direct loan in the form of a working capital facility to an agro-processing company. Twelve companies benefited from the Turn Around Management (TAM) programme. Towards the end of the strategy period, the Bank approved a Business Advisory Services (BAS) programme for Moldova which will be implemented during the next strategy period.

No new private sector investments occurred in the infrastructure sector in the last two years, in part due to the government's reluctance to actively pursue privatisation in the energy and telecom sectors.

Throughout the strategy period the Bank continued to address the long lasting problems affecting its portfolio. The Bank successfully restructured the Giurgiulesti Oil Terminal project. As a result of the restructuring, the unfinished oil terminal has been transferred to Azertrans, a Moldovan subsidiary of the Azpetrol Group and Moldova has been released from its obligations under the State Performance Guarantee Agreement. Furthermore, Azpetrol has signed a $250 million investment agreement with the Moldovan government, comprising, among other steps, the completion of the oil terminal. The Bank also restructured the Wine Export Promotion and Glass Container Company Project resulting in a new financing package provided by the Bank and a local bank to Glass Container Company and releasing Moldova from its sovereign obligations to the Bank. In contrast, two other sovereign guaranteed projects, both involving technically bankrupt state enterprises, continue to present payment problems despite repeated interventions by the Bank both at municipal and national level.

The Bank's policy dialogue with the government on the investment climate produced some modest results. One positive development has been the settlement of protracted disputes with Lafarge, the French cement producer. Moldova also took an important step towards cutting red tape and bureaucratic obstacles through the adoption of the "Guillotine Law" in February 2005. The Bank assisted the government in drafting a leasing law, adopted by Parliament in April 2005, and in developing the residential mortgage sector. However, the Government's inability to genuinely embrace market principles have meant that the Bank's efforts to tackle broader issues such as state intervention, the independence of regulators or tariff methodology have so far failed.

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

1.3.1 Quality of Portfolio

The current net portfolio stands at €86 million of which €70 million are operating assets. Impaired assets account for 12 per cent of total operating assets.

The overall portfolio risk rating is 7.1, reflecting a vulnerable portfolio in a difficult environment. Of six sovereign projects, three are in a precarious position. The Chisinau Energy Efficiency Project involves a technically bankrupt municipal company which relies on VAT reimbursements to manage repayments. Repayments for the Chisinau Water Services Rehabilitation Project were subject to lengthy delays. The Wine Export Promotion and the Glass Container Company Project was partially restructured in 2000. Although it only managed sporadic repayments with delays of up to 186 days, it did so without Government support. The project was restructured for a second time in June 2005. Private sector operations continue to perform well although the Bank's equity investments will require careful monitoring.

1.3.2 Mobilisation of Co-financing

Co-financing is at an early stage in Moldova, with the Bank and other IFIs as the main sources of long-term funds. To date the Bank has mobilised in total €120 million in commercial co-financing from sponsors and co-financiers for a mobilisation ratio of 68 per cent. However, since the bulk of the Bank's projects during the previous strategy period consisted of SME credit-lines, the commercial co-financing raised over the period was modest (€6 million).

1.3.3 Transition Impact and Lessons Learned

The Bank's transition impact was most noticeable in the financial and private enterprise sectors. The MCFF provides a good example of how the Bank advances transition in the financial sector. The facility, which is supported by credit advisory technical assistance financed by the ETC multi-donor fund, enables successful local banks to overcome lending constraints caused by single borrower exposure limits and portfolio concentration. The Bank also promoted transition in the financial sector through two technical assistance projects designed to develop the leasing and residential mortgage markets.

The Bank's micro-finance programme through its network of local branches has a substantial transition impact in rural Moldova by sustaining the development of MSEs thereby creating local employment and lessening urban and cross-border migration. With respect to SMEs the Bank's transition impact often starts well before any financing is extended for instance by assisting SMEs to reform their corporate structure and accounting systems to meet the Bank's standards for corporate governance and transparency. Although not specifically geared to project preparation, the Bank's TAM programme plays a critical role in enabling local SMEs to attract financing either from the Bank or a local bank.

The Bank's transition impact was less significant in the infrastructure sector. Although some progress has been made with respect to the unbundling and privatisation of the energy sector through Union Fenosa's purchase of three electricity distribution companies, the sector remains inherently non-transparent and marked by political interference in the regulatory process. In the municipal sector (confined to the capital Chisinau) the Bank's transition impact was hampered by the municipality's failure to implement a full cost-recovery-based-tariff reform.

In sectors with a weak regulatory framework, which are strategic or where substantial reforms are required, the project approach has limitations. Instead the sector should be assessed as a whole, vested interests should be identified up-front and the Government's commitment to market reform should be carefully appraised. The Bank's experience shows that transactions which require the involvement of third parties outside the control of the contracting party (such as the adoption of a law by Parliament or a resolution by a municipal council) cannot be covenanted effectively. Sectoral and regulatory objectives which are likely to trigger substantial resistance from vested interest groups can only be achieved when there is a clear political commitment at the highest levels. In order to be successful, projects of this nature require a policy dialogue which should be ongoing, structured and closely coordinated with other international financial institutions (IFIs) and the donor community.

1.4 Portfolio Ratio

During the strategy period the percentage of investments of private sector projects increased from 53 per cent to 59 per cent of the Bank's portfolio, reflecting the absence of any new public sector projects during the period. This trend is expected to continue as Moldova's sovereign debt capacity is restricted and no new public sector projects are currently in the pipeline.

2. Operational Environment

2.1 The General Reform Environment

2.1.1 Political Developments

The Communist Party of Moldova (CPM) retained its parliamentary majority in elections held in March 2005 and Vladimir Voronin was re-elected by the Parliament to a second term as president. The OSCE concluded that the parliamentary election "generally complied with most OSCE and Council of Europe commitments" but fell short in some areas that are central to a genuinely competitive election process, such as media access and the provision of equal campaign conditions. "Restrictive regulations on the campaign and media made it difficult for voters to get basic information about the contestants", the head of the OSCE election mission commented in a press release. Although the CPM still dominates the legislature with a total of 56 seats out of 101, the opposition also fared well – the Democratic Moldova Bloc (DMB), a loose grouping of centrist parties, did better than expected with 34 seats, and the centre-right Christian Democratic People's Party (CDDP) won 11 seats. Those were the only three parties that crossed the rather high threshold for parliamentary representation (6 per cent for individual parties, 9 per cent for coalitions of two parties, and 12 per cent for coalitions of three or more parties). It is an outcome that could strengthen political checks and balances and appears to reflect the will of the people.

The CPM has been drifting toward the political centre in the past year and has generally adopted a more pro-European stance. The leadership has begun to transform the CPM ideologically into a European-style leftist party. On Transnistria, the presidential administration has put forward a Declaration of Stability and Security for the Republic of Moldova (DSSM) that calls for the removal of Russian troops from the breakaway territory and invited the US and the EU to participate in the five-party negotiating framework as observers. Moldova welcomed the appointment by the European Council of a Special Representative for Moldova, Ambassador Jacobovits de Szeged. The Ukrainian authorities have put forward a new settlement proposal for Transnistria, which is under consideration. The Moldovan Parliament endorsed the plan in June 2005. More broadly, Moldova clearly expressed its intention of pursuing closer integration in European structures. European integration, a popular issue with voters, was a key theme of the CPM during the election campaign. Just prior to the election, Chisinau and Brussels reached agreement on an EU-Moldova Action Plan in the framework of the European Neighbourhood Policy. These policy shifts are welcome news, but it will be important to build a track record of effective implementation in order to put to rest the questions raised by several years of inconsistent application of principles of good governance. For a more detailed political assessment, please refer to Annex 2.

2.1.2 Social and Labour Conditions

Moldova's strong economic growth since 2000 has alleviated poverty. Nevertheless, Moldova remains the poorest country in Europe and long-term growth is required to eradicate poverty. According to the 2004 World Bank Poverty Assessment Report (Report No. 28024-MD), even if Moldova's economy grows at 8 per cent per year, over one in five Moldovans would still be in poverty in 2007. In Moldova poverty is closely correlated with location and education levels. The risk of poverty is highest in small towns where the safety net provided by subsistence farming is absent and employment is scarce. People in rural areas fare better mainly because they can live off the land. Residents of Chisinau and Balti are the least likely to be poor due to better employment opportunities and higher wages. A substantial part of the population (25 per cent) has remained poor throughout the recession and recovery. This group is disproportionately represented by households headed by individuals who lack higher education. The poverty risk is even higher in households where the head is engaged in agriculture, especially as a hired worker. On the other hand, households headed by individuals with higher levels of education have benefited from improved employment opportunities and are less vulnerable to poverty.

Public health care expenditure as a share of GDP (4 per cent) compares favourably to other countries but remains below the levels prior to the 1997 Russian crisis. On the other hand, household out-of-pocket spending on health care has doubled from 1997 to 2002 and informal payments are common. As a result access to health care services is becoming increasingly unequal. The poor account for only 20 per cent of hospital visits and one third of ambulatory care visits. Infant mortality decreased from 21.2 per 1,000 live births in 1996 to 16.4 in 2002 but is still higher than the Central and Southern European average (10.5 per 1,000 live births). Moldova's strong agricultural base has kept severe under-nutrition at bay but falling incomes have resulted in serious micro-nutrient deficiency.

Over the last five years, participation in primary schools remained stable while enrolment in secondary schools and university increased. The quality of education improved but several challenges remain. Grade 6 tests show that many students still score poorly on basic literacy and numeracy skills. Schools lack basic resources and absenteeism is a problem. Although compulsory education is officially free, the cost per student is high, about a third of the per capita consumption of a household at the poverty line.

Employment has declined by 36 per cent since 1991. Despite signs of improvements since 1999, the Moldovan labour market remains depressed. Although real wages have increased by an average of 17 per cent per year over the past four years and unemployment has fallen to 8 per cent according to official statistics, productivity is still very low. The agricultural sector accounts for almost half of all employment but represents less than a third of all paid jobs. It also accounts for over three-quarters of all part-time work and provides the largest share of informal employment. Job creation does not compensate for job destruction and is mainly confined to Chisinau, further accentuating the regional imbalance between the capital and the rest of the country. As a result, a large number of Moldovans seek employment abroad and are vulnerable to trafficking. The 2005 Moldova Remittance Study commissioned by the International Organisation for Migration (IOM) estimates Moldova's migrant contingent to be well over half a million people.

Moldova is a member of the International Labour Organisation (ILO) and has ratified all eight core conventions (including ILO Convention 182 on Child Labour and the International Programme on the Elimination of Child Labour (IPEC)). Notwithstanding this, child labour and human trafficking remain a problem. Street children, children in institutions and Roma are at risk of social exclusion and discrimination.

2.1.3 Legal Reform

Over the years, Moldova has carried out extensive reforms of its commercial and financial legal framework and has managed to put in place a comprehensive legislative base for the transition to a market economy. However, an analysis of key commercial laws that directly contribute to creating a favourable investment climate in Moldova (such as secured transactions and bankruptcy laws) shows that even relatively good laws still suffer from serious implementation problems. Contract enforcement is worse than average for transition countries. Furthermore, Moldova needs to improve its judiciary. Additionally, administrative barriers are a major constraint in the investment climate. 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. By endorsing the EU-Moldova Action Plan in the framework of the European Neighbourhood Policy in February 2005, Moldova has undertaken important commitments in all these areas. For the Bank's assessment of selected commercial laws, please refer to Annex 3.

2.1.4 Environmental Issues

According to the 2000 Environmental Performance Review Report by the United Nations Economic Council for Europe (UNECE) some environmental quality improvements were achieved. Nevertheless, according to Moldova's Economic Growth and Poverty Reduction Strategy Paper (EGPRSP), pollution of surface and underground water, urban air pollution, soil contamination and erosion, deforestation, failure to protect biodiversity and waste management still remain key environmental concerns. The EGPRSP identifies the conservation of natural resources on which the population relies for their livelihood, and in particular the improvement of air and water quality, as a critical policy issue. There is also a need for institutional capacity building and public participation to support the implementation of the UNECE Convention on Access to

Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (known as the Aarhus Convention). Moldova's intention to harmonize its legislation with that of the EU will require revisions to its 1993 Framework Law on Environmental Protection as well as further legislation in key environmental sectors (water quality, waste management, air quality, industrial pollution and wild flora).

The Bank has a three-prong approach to supporting environmentally sound and sustainable development in Moldova. Firstly, the Bank ensures that its local partner banks implement environmental due diligence procedures and thus support environmentally sound projects. Secondly, the Bank ensures that new stand-alone projects comply with the Bank's Environmental Procedures and Public Information Policy and incorporate, where appropriate, Environmental Action Plans into the legal documentation in order to address issues raised during due diligence. Thirdly, the Bank implements ad hoc environmental projects to address specific concerns. For more information on the Bank's environmental approach, please refer to Annex 4.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic Conditions for Bank Operations

Moldova's overall macroeconomic performance has further improved since the last country strategy. The economy has been growing at an average rate of 7 per cent since 2000 and the Ministry of Economy's outlook for 2005 is about 7 per cent. However, in the medium term this rate of economic expansion is unsustainable without deeper structural reforms, including further improvements in the investment climate and privatisations in key areas such as energy, telecom and winery.

Following a period of steady disinflation, a surge in inflation was recorded in 2003, with an end-period inflation of 15.8 per cent and a subsequent fall to 12.5 per cent in 2004. The National Bank of Moldova (NBM) provided a MDL 594 million loan to the Government for servicing the external debt in 2004, somewhat undermining the stated tight monetary policy goals. The exchange rate of the Leu against the Dollar followed its managed depreciation in 2003, with an annual average exchange rate of 13.94 MDL/$, but appreciated steeply in early 2004, due to the excess of foreign currency in the market generated by increasing flows of remittances. A peak exchange rate of 11.78 MDL/$ was reached in May 2004, after which the currency resumed its trend of nominal depreciation towards 12.46 MDL/$ at the end of 2004. In the absence of structural reforms the supply response was weak and the nominal appreciation translated into a marked real exchange rate appreciation, 24 per cent against the Dollar and 13 per cent against the Euro, with negative consequences for the trade balance, most notably through a surge in imports. The trade deficit has surged to 31.8 per cent of GDP in 2003 and to 29.2 per cent in 2004 from an average 22 per cent earlier in the decade. The current account deficit was 6.68 per cent of GDP in 2003 and 4.4 per cent in 2004, and is expected to stabilise at around 4 to 6 per cent of GDP over the next few years. The flow of remittances transferred by Moldovan citizens working abroad has increased substantially over the past two years. Estimated to be in excess of €500 million in 2004, remittances now play a crucial part in financing the current account.

Fiscal policy has tightened significantly in the past two years. The consolidated national budget had surpluses of 1.1 per cent in 2003 and 0.4 per cent in 2004. These surpluses resulted from better than anticipated revenue performance and prudent spending. Due to the weak supply response in the economy, much of the remittance-financed consumption has fuelled imports, providing increased indirect tax revenues (mainly VAT and excise duties). Moderate social spending and low public investment have kept expenditures in check. For 2005 the Government plans a slight fiscal policy loosening, with a projected deficit of 0.7 per cent of GDP for the consolidated budget, based on a growth assumption of 6 per cent. The Medium Term Expenditure Framework provides for smaller deficits in 2006 and 2007.

Debt rescheduling and the appreciation of the Leu have considerably reduced the external debt burden, but debt sustainability remains one of the country's main macroeconomic challenges. At the end of 2004, Moldova's external debt stock stood at $1.924 billion (€1.415 billion), or 74 per cent of GDP. The public and publicly guaranteed debt has declined in the course of 2004 with an end-year stock of $884 million, down from $1.01 billion in 2003 and $988 million in 2002. Private debt has steadily increased from $826 million in 2002 to $1.04 billion in 2004. Liquidity problems may persist in the short term and the authorities need to tackle the problem of outstanding arrears and their continued accumulation. Following the Eurobond restructuring in late 2002, Moldova continued to restructure its external debt in 2004. Moldova concluded rescheduling agreements with Turkey ($8.3 million) and Romania ($9.4 million) and prepaid at a discount its $114.5 million gas debt to Gazprom and its $10.2 million debt to Hewlett-Packard. Public and publicly guaranteed debt servicing has improved in 2004. Although arrears have been considerably reduced, the country was still in arrears of approximately $37 million at the end of the first quarter of 2005. A new IMF programme is a condition for restructuring of Moldova's Paris Club debt worth more than $200 million. This remains one of the major challenges in the strategy period. For selected economic indicators, please also refer to Annex 5.

2.2.2 Transition Successes and Transition Challenges

Progress in Transition

Moldova made modest progress in structural reforms during the previous strategy period. Moldova joined the World Trade Organisation (WTO) in 2001 but this has not yet led to the desired boost and diversification in exports. The structure of international trade remains largely unchanged. Exports primarily consist of agricultural products, which account for about 53 per cent of total exports. CIS markets absorb just over 50 per cent of exports, down from about 60 per cent two years ago, whereas 43 per cent of imports come from CIS countries. Trade is still hampered by a variety of formal and informal trade restrictions imposed either by importing countries (e.g. agricultural products to the EU) or by Moldova itself (e.g. export restrictions on cereals, sunflower seeds and scrap metal). The transparency of import–export operations is also hindered by the situation in Transnistria, where trade is conducted outside the control of the Moldovan authorities.

Privatisation has progressed slowly in the past two years. The sales of important enterprises in the agribusiness, power and telecoms sectors have been deferred. Three large wineries were however privatised with the help of a financial advisor. The sale of the two remaining state owned power distribution companies was postponed partly due to the lack of interested strategic investors. Moldova's inability to attract strategic investors is due to the small size of its economy as well as its weak investment climate.

The investment climate has somewhat improved over the past two years but significant weaknesses remain. Formal trade barriers and administrative hurdles with respect to business registration, licensing and tax administration were reduced. Further cuts of red tape and bureaucratic obstacles are expected pursuant to the implementation of the "Guillotine Law" adopted in February 2005 which will streamline the existing regulations and administrative orders in the commercial sphere. Despite these improvements, Moldovan businesses still operate under less favourable conditions than their peers in neighbouring countries. Government interference in the economy remains high. Corruption remains a serious problem, partly due to the state's continued involvement in the economy. According to Transparency International's 2004 corruption perceptions index Moldova ranks 114th out of 146 countries surveyed, with an overall score of 2.3 (10 being the least corrupt).

Some progress has been achieved in the infrastructure sector, particularly with regards to the telecommunications industry. The National Regulatory Agency for Telecommunications and Information Technologies (ANRTI) has embarked on a comprehensive tariff re-balancing exercise. The sector was fully liberalised in 2004 and a few alternative fixed line operators have emerged. Nevertheless, the state owned Moldtelecom remains undisputedly the main provider of fixed-line telephony. The regulation of interconnection has improved and currently Moldtelecom and the two GSM operators (Moldcell and Voxtel) are obliged to provide interconnection at regulated tariffs for alternative fixed line operators. Initial steps have been undertaken to implement universal services, mainly on a pilot project basis and a few regulatory initiatives related to the creation of a universal service fund have been adopted. Transition progress in the energy sector was less apparent in the past two years. Despite the establishment of the National Energy Regulatory Agency (ANRE), the Government has regularly interfered in the regulatory process, particularly in the power sector, and the once promising reform effort has stalled. The Government's plans to merge ANRE and ANRTI into a single regulator for energy and telecommunications may further compromise transparency and weaken the regulatory process. The privatisation of three of the five electricity distribution companies in 2000 has helped increase tariff collection and service quality, but – as indicated above – the privatisation of the remaining two distribution companies has been postponed. Major challenges also remain in the municipal infrastructure sector. The Chisinau district heating company Termocom is undergoing bankruptcy restructuring and is a major source of fuel energy losses and payment arrears. Moldova's outstanding external energy debt (excluding Transnistria) stood at €211 million at the end of 2004. The water supply and public transport companies in Chisinau have suffered from the municipal council's inability to promote a tariff reform which would ensure financial sustainability.

Progress in the financial sector was mainly confined to the banking sector. The legal framework for banking supervision is mostly in place and soundness indicators are positive, but several weaknesses need to be addressed, including lack of transparency in bank ownership, the application of "fit and proper" standards to significant shareholders and the assessment of credit and market risks. Foreign presence in the Moldovan banking system is still low compared to other countries in the region, with only two foreign banks nominally present in the country (Banca Comerciala Romana, a full subsidiary of the Romanian bank, and Unibank, fully owned by Petrocommerce, Russia). Banks have substantially increased their lending volume over the last two years, yet domestic credit to the private sector is still only 21 per cent of GDP. Improvements in bank supervision have contributed to enhancing the quality of the loan portfolio, with a share of non-performing loans of 6.8 per cent at the end of 2004. Lending, however, is still restricted to short tenors and specialised products such as mortgages and leases remain underdeveloped. The non-banking financial sector is rudimentary.

Transition Challenges

The key transition challenges for Moldova over the strategy period are as follows:

Establishing fair competition and improving the investment climate – Long term improvements in economic performance require a climate of fair competition for all market participants. In order to achieve this Moldova will need to reduce Government interference in the economy, strengthen regulatory and competition authorities, streamline the legal framework and eliminate informal and administrative barriers and corruption. The EGPRSP and the EU-Moldova Action Plan identify the promotion of competition, legal and regulatory reform, combating corruption and the improvement of the investment climate as necessary pre-conditions to economic growth.

Economic diversification – Moldova's economy is highly dependent on agriculture and the related food and beverages industry. Together they account for more than 33 per cent of GDP, 58 per cent of total exports (mostly to CIS countries) and employ over 40 per cent of the working population. Nonetheless Moldova's agricultural sector is marked by low productivity and low value added. In 2003 gross value added per employee in agriculture was half the average in the economy and 70 per cent lower than in industry. Accordingly the earnings of the agricultural workers and the tax revenues generated in agriculture are relatively small. The EGPRSP advocates achieving long term sustainable economic growth by decreasing the economy's dependency on the agricultural sector and diversifying into sectors with higher value added.

Redressing the balance between Chisinau and the regions – Almost 80 per cent of the population lives outside the capital. Yet, the regions receive less than 20 per cent of foreign investments, account for less than 40 per cent of exports and have wage levels half those in the capital. Local budgets are primarily used to finance current expenditures and rarely have sufficient resources for investment and development. Regionally balanced economic development throughout the country, as advocated by the EGPRSP and the EU-Moldova Action Plan, will require increased investments in regional infrastructure and adequate support for the emergence of MSEs and SMEs in rural areas.

Advancing energy and municipal sector reform – Moldova's energy sector is marked by an almost complete absence of primary energy resources (more than 90 per cent of the primary energy supply is imported) and sizeable foreign debts to suppliers. The main fuel for the country is natural gas (almost 70 per cent of the total primary energy supply). Moldova's energy sector suffers from high energy intensity, obsolete and inefficient equipment, high levels of energy losses, energy tariffs which do not reflect the full cost and regional problems with tariff collection. In the power sector, further regulatory reform will be required to promote fair competition (particularly in cross-border electricity trade) and efficiency, reinforce the independence of the regulator and ensure full cost-recovery-based tariffs. The remaining state-owned generation assets and distribution companies, whose modernisation will require considerable investment, will need to be privatised. In the thermal energy sector, the district heating systems should be restructured and modernised. The municipal infrastructure sector requires commercialisation, tariff reform and substantial restructuring.

Ensuring debt sustainability – To ensure macroeconomic stability for sustained growth, the Government needs to continue its prudent fiscal policy, tighten monetary policy and gain access to finance from the IMF to facilitate external debt rescheduling where necessary. The EGPRSP and the EU-Moldova Action Plan set debt stabilisation and improved debt management combined with a balanced budgetary-fiscal policy as a medium term objective.

2.3 Access to Capital and Investment Requirements

Moldova has substantial investment and rehabilitation needs both in the public and in the private sector. However, access to both domestic and foreign capital is very limited.

The ability of the sovereign to assume further liabilities remains precarious. Although the debt service obligations are no longer as challenging as in 2001-2, the government still incurs arrears in servicing the external debt and liquidity problems are likely to persist. The Government may incur further indebtedness on concessional terms, primarily from the IMF under the Poverty Reduction and Growth Facility (PRGF) or on IDA terms from the World Bank, conditional on progress in structural reforms.

Net foreign direct investment flows to Moldova increased to €107 million in 2004, up from €60 million in 2003 but the level and quality of FDI inflows remains below the country's long-term needs.

Local commercial banks have considerably increased their lending activities since the last strategy period. The expansion of lending was particularly fast after 2000 and credit to the private sector grew in nominal terms by 45 per cent in 2003 and 25.3 per cent in 2004 increasing the stock of credit to the private sector to 21 per cent of GDP. Nevertheless, access to financing is limited particularly for SMEs and MSEs which form the backbone of Moldova's private sector. Borrowers complain of the short loan tenures which limit their ability to embark on long term investment programmes and the high real interest rates which often make loan financing prohibitively expensive.

3. Strategic Orientations

3.1 Bank's Priorities for the Strategy Period

Moldova faces some unique challenges. Despite improvements over the previous strategy period, it remains the poorest country in Europe. Transnistria continues to be a destabilising factor. Moldova's sovereign debt constraints prevent the Bank from undertaking sovereign infrastructure projects despite urgent rehabilitation and restructuring needs. It also deprives the Bank of one of its main levers in its policy dialogue with the Government. Moldova's well developed banking sector is the Bank's key partner in SME financing. Yet healthy SMEs are constrained by high interest rates charged by the local banks and often postpone expansion plans. The substantial flow of remittances, if channelled through the local banks, could further strengthen the country's financial system and partly meet its needs for investment finance. Instead it largely fuels consumption, attracts imports and makes exports less competitive as the exchange rate appreciates widening the trade deficit in the process and generating additional inflationary pressures.

Then again, Moldova stands to benefit from a geopolitical shift in the region. Romania's accession to the EU, scheduled for 2007, has increased Moldova's visibility and the recent political changes in Ukraine have resulted in a strengthened European orientation for the Government. These developments entail political and economic policy adjustments which if, implemented successfully, are likely to enhance private sector development.

Accordingly, the Bank's activities over the coming strategy period will support primarily the development of the domestic private sector, including through a co-ordinated policy dialogue with the authorities on improving the investment climate.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Financial Institutions

3.2.1.1 Background

The **banking sector** comprises 16 banks with the five largest banks accounting for over 70 per cent of total banking assets. During the previous strategy period, the sector experienced strong growth and qualitative improvements. During 2004 the assets of the banking sector increased by almost 29.5 per cent in MDL terms, net loans increased by 25.3 per cent and total deposits grew by 38.4 per cent. The product range offered by leading banks has been diversified as they started issuing and servicing debit cards and offering quick money transfer options, on-line banking and incipient housing finance. During recent years a number of positive amendments to the banking legislation were adopted. In particular, minimum capital requirements were gradually increased and regulations have been amended to allow for more efficient lending and treasury management practices. However, weaknesses remain to be addressed, including a lack of transparency in bank ownership, corporate governance and the assessment of credit and market risks.

Micro-finance is a key component in creating sound financial markets in ETC countries. Often it is the first step in transforming MSEs in SMEs. In Moldova, micro-finance is particularly important. In manufacturing, small businesses accounted for 22 per cent of total sales in 2003 and represented 87 per cent of all industrial enterprises. In the trade sector, small businesses are even more important accounting for 32 per cent of total sales in 2003 and 94 per cent of all trading companies. Micro-finance institutions play an important role in providing financing to these small businesses generally deemed unattractive by commercial banks due to the high administration costs they entail and the lack of adequate collateral.

The **non-banking financial sector** remains largely underdeveloped. In April 2005 Parliament adopted a leasing law developed with the Bank's assistance. A dozen or so leasing companies have been established mostly by banks but volume of transactions remains small and mostly confined to car leasing. There are approximately 50 insurance companies in Moldova. Although the demand for insurance services is growing, the insurance business only accounts for 1 per cent of GDP. The market was consolidated in 2004 when the minimum charter capital for insurance companies was raised but there is scope for further consolidation. The stock market is underdeveloped and marked by low liquidity and insufficient transparency. Not surprisingly its attractiveness to investors is limited.

3.2.1.2 Transition Objectives

The Bank's transition objectives in the financial sector will be to further strengthen the banking sector and financial intermediation, ensure efficient financing of the private sector particularly SMEs and MSEs including in Moldova's regions, develop the use of new financial instruments such as mortgage financing or leasing and support the development of the emergent non-banking financial sector.

3.2.1.3 Operational Priorities

In support of those objectives, the Bank will pursue the following operational priorities:

- The Bank will continue to actively engage its partner banks through the provision of additional SME and MSE credit lines, participation in the Bank's trade facilitation programme (TFP) and the implementation of the MCFF. The Bank will seek to extend its co-operation to new partner banks and to assist in the development and promotion of new financial instruments such as leasing or mortgage financing. On the equity side, the Bank may consider assisting in the privatisation of Banca de Economii, the state owned savings bank and investing in leasing companies and mortgage providers in conjunction with other partners. Where appropriate, the Bank will provide technical assistance, through among others the ETC multi-donor fund, to meet these priorities.
- The Bank will continue to support the development of micro-finance via its involvement in ProCredit and through the extension of its MSE programmes to commercial banks as well as to other, carefully selected, non-bank financial institutions. In order to support the regional development of Moldova's economy, the Bank's micro-finance programmes will include a regional component to ensure appropriate availability of micro-finance outside the capital.
- The Bank will explore opportunities to support the development of the non-banking financial sector through technical assistance from among others the ETC multi-donor fund.

3.2.2 Private Enterprise

3.2.2.1 Background

Agriculture and agro-processing industry is the largest sector of the economy. It generates more than 33 per cent of the country's GDP, employs over 40 per cent of the active population and accounts for 58 per cent per cent of exports. Over the last four years, agro-processing, including fruits and vegetable processing, wine production and vegetable oil production, registered stable growth of approximately 15 per cent annually. Growth in basic agriculture was more modest at 3 to 6 per cent per year.

Land and collective farm privatisation is practically complete. It resulted in a very fragmented structure of land ownership with individuals owning small plots of land which are often completely enclosed and which are not economically viable. A weak investment climate, ad hoc Government interventions in the form of import or export restrictions and the threats of reversals in land privatisation prevent the emergence of restructured and consolidated farms.

Food and agricultural products traditionally dominated Moldovan exports. Moldova remains a net exporter of food and agricultural products mostly to CIS countries. Moldova has no production capacity for – and consequently relies on imports of – inorganic fertilizers, pesticides, additives, veterinary medicines or fuels. Consequently the agricultural sector is vulnerable to exchange rate fluctuations and trade restrictions.

The **manufacturing sector** accounts for 15.7 per cent of GDP and employs 9.4 per cent of the active population. Most of the sector has been privatised (92 per cent). Sixty per cent of the country's industrial production is based in the capital.

Due to chronic underinvestment in the sector, equipment is often worn and technologies obsolete. This in turn increases consumption of energy and raw materials and reduces productivity and competitiveness. Outdated technology also prevents local manufacturers from competing on international markets because they cannot ensure the high production standards and quality consistency required by international clients.

The substantial remittances and the consumption-led growth that ensued have fuelled a **retail** and **property** expansion. Both sectors registered significant growth over recent years especially in the capital city. Existing local supermarket chains have expanded, while international brands such as Metro have entered the market. In addition several shopping malls have appeared and others are currently being built. The retail expansion has occurred in parallel with increased property development as demand for commercial real estate, retail infrastructure and warehouses has risen. The retail and property expansion has had positive repercussions for the **transport**, **building materials** and **construction** sectors.

3.2.2.2 Transition Objectives

The Bank's transition objectives for the enterprise sector will be to assist enterprises in moving up the value chain and accessing international markets by upgrading their production facilities, assist the diversification and regional development of Moldova's economy, facilitate FDI, improve standards of management, accounting and marketing and enhance transparency and corporate governance.

3.2.2.3 Operational Priorities

The Bank will pursue the following operational priorities:

- The Bank will continue to pursue investment opportunities in all enterprise sectors including without limitation the agro-processing, manufacturing, retail and property sectors. Larger, well performing, companies will be provided with direct financing including through ETC instruments such as the MCFF and DIF. In the agribusiness sector, the Bank will explore investment opportunities among others in export-oriented agro-processing, packaging and retail. In the property sector, the Bank will look for opportunities to support, directly, offices, logistics and retail infrastructure projects as well as, indirectly through mortgage finance facilities, residential development.

- The Bank will implement a structured marketing approach. In order to promote the diversification and regional development of Moldova's economy, the Bank will mainly direct its marketing efforts to companies active in non-food related sectors and located in the regions.
- The Bank will facilitate FDI either by investing alongside foreign strategic investors or by assisting the development of local companies which in due course may attract foreign investment.
- The Bank will continue to work with the Government and donors to establish a warehouse receipt system which will allow the Bank to provide working capital to the agribusiness sector and improve transparency of commodity transactions.
- The Bank will continue to provide non-financial support to private enterprises through its TAM and BAS programmes to improve local management skills, support international certification and assist with business planning and restructuring.

3.2.3 Infrastructure

3.2.3.1 Background

Moldova's infrastructure sector suffers from chronic underinvestment, deferred maintenance and a weak regulatory environment. The continued deterioration of basic infrastructure hinders genuine economic recovery, jeopardises the country's competitiveness and reduces the likelihood of attracting quality foreign investors. Although deteriorating infrastructure is generalised throughout Moldova, it is particularly acute in rural regions.

As indicated in section 2.2 above, Moldova's **energy sector** is marked by an almost complete absence of primary energy resources and a low hydroelectrical potential. The country is highly dependent on energy imports mainly from Russia and Ukraine with 90 per cent of energy consumed being imported. Over the last 15 years natural gas has replaced coal as the main fuel and now constitutes 75 per cent of total primary energy supplies.

In the power sector, further regulatory reform will be required to promote competition and ensure transparency of the market, reinforce the independence of the regulator and ensure full cost-recovery-based tariffs. The remaining state-owned generation assets and distribution companies will need to be privatised. The EU-Moldova Action Plan and the Energy Community of Southeast Europe provide Moldova with a framework to achieve these objectives.

Moldova's strong dependence on imported energy resources makes the use of local sources, including renewables, a necessity. To date, however, the practical implementation possibilities of renewable energy projects remain weak due to limited regulatory support and insufficient capital resources.

Transport is an essential component for sustainable growth. Albeit a landlocked country, with only limited access to the Danube, Moldova could potentially act as a gateway between CIS countries and, following Romania's accession in 2007, the EU.

To date, however, no concerted effort has been made to address the needs in line with the changing trade patterns. The deterioration of transport infrastructure over the last 15 years has furthermore significantly reduced the quality of transportation services and contributed to rising costs due to the increase in operational expenses.

The legal, regulatory and financial environment for investments in support of **municipal infrastructure** investments remains problematic. Despite the very poor condition of municipal infrastructure, especially in the water and wastewater network, and poor reliability in basic services, the levels of investment are constrained by the lack of revenue and inadequate cash flow at the level of operating companies. In some important markets such as Chisinau, there is continuing reluctance to raise tariffs to the levels which can cover operating costs let alone new investment. The poor service in turn undermines tariff-collection discipline and the lack of efficient and workable legal and regulatory mechanisms prohibits utility companies from taking action against non-payers. Privatisation or management contracts for the utility companies might be an option for their successful turn around. However these first require a strong commitment from and a favourable environment to be created by the central and local authorities of Moldova.

An efficient **information and communication technology (ICT) infrastructure** can substantially enhance economic growth. The telecom sector was fully liberalised in line with the requirements of the WTO "Reference Paper" on telecommunications. Around 40 licenses were issued in 2004 to private fixed-line service providers and a few companies have started operations. However, the state-owned Moldtelecom is expected to remain – at least for the medium term – the dominant provider of local, long distance and international fixed-line telephony as well as voice over internet services. Attempts to privatise Moldtelecom in 2003 failed due to lack of interest from investors. The EGPRSP sets privatisation of Moldtelecom as one of its objectives but no new date has so far been set. Mobile telephony services have expanded rapidly over the past years. Voxtel and Moldcell, the two providers, have approximately 500,000 and 400,000 customers respectively.

There is some competition in the internet service provision, even though there is very little diffusion of such services and usage varies considerably across the different sectors of the economy. Moldova’s multilingual labour pool and low labour costs could make Moldova a potentially attractive location for outsourcing services and call-centres. This, however, will require further upgrading of the telecommunication infrastructure and a commitment to IT education.

3.2.3.2 Transition Objectives

The Bank’s transition objectives for the infrastructure sector will be to assist the Government in the transparent privatisation of key state-owned infrastructure assets, support the emergence of a robust regulatory framework, support the regional development of all infrastructure sectors, support private investors and generally improve standards of integrity, transparency and corporate governance in all sectors but particularly in the energy sector.

3.2.3.3 Operational Priorities

Given the severe sovereign debt capacity constraints, the general lack of interest from investors and the weak regulatory environment, investment opportunities for the Bank in the infrastructure sector over the next strategy period are expected to be scarce and challenging. The Bank will primarily focus on private sector opportunities and will pursue, in close consultation with its partners, the following operational priorities:

- In the **energy sector**, the Bank will endeavour to identify energy saving measures in its projects through the Sustainable Energy Programme (SEP).[1] The Bank will consider providing credit lines and associated technical assistance through local banks for energy efficiency improvements for industrial as well as for residential end-users. In the **transport sector**, the recent acquisition by Azpetrol of the Giurgiulesti Oil Terminal may offer scope to develop associated and viable investment projects which the Bank may finance. In the **telecom sector**, the Bank will consider providing loan and equity financing to private ICT operators, including mobile telephony and cable TV.
- The Bank will actively seek opportunities to participate alongside suitable strategic investors in the privatisation of key assets in the **energy** and **telecom sectors**. The Bank's participation will, however, be subject to transparent privatisation processes and the existence of a satisfactory regulatory framework.
- The Bank's continued involvement in the **municipal sector** will be contingent on surmounting the ongoing obstacles to the successful implementation of the Bank's current municipal water project in Chisinau. Approval of tariff increases to cost-recovery level would facilitate consideration of follow-on projects in Chisinau, and elsewhere with other smaller and poorer cities.
- The Bank has emphasized its commitment to smaller infrastructure projects under its ETC initiative and resources have been identified (particularly from the EU) to co-finance projects in poorer regions with grant funds recognising affordability constraints.

4. Other IFIs, Multilateral and Bilateral Donors

4.1 IFI and Donor Co-operation

The co-operation among the IFIs and the donor community in Moldova has been good. The Bank regularly exchanges views and information about ongoing and planned activities with the IMF, WB, IFC, UNDP and BSTDB. The Bank actively engages with the donor community through the monthly donor meetings. In addition, the Bank's Resident Office has had bilateral discussions with among others TACIS, USAID, DFID, SECO, SIDA, SDC and DEG.

The main focus of donor assistance is civil society, rule of law, SME development, trafficking, Transnistria and statistics. The EGPRSP, adopted by the government in May 2004, provides the overarching policy framework for the sustainable development of

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[1] In 2005 the Sustainable Energy Programme (SEP) was launched as part of the ETC Initiative. The programme aims to support the Bank's existing or prospective clients to identify and to facilitate the development of sustainable energy projects in ETC countries. The SEP comprises of two services: (a) free energy audits to assist industrial and commercial clients in investigating cost effective energy efficiency measures and bankable investment opportunities; and (b) the Clean Development Mechanism (CDM) Project Support Facility (PSF) which assists project sponsors in developing emissions reduction projects and subsequently monetising them through the sale of Carbon Credits.

Moldova and provides a good platform for enhanced coordination among Moldova, the IFIs and the donors.

For an overview of the Bank's technical co-operation programme and the donors who have contributed to it, please refer to Annex 6.

4.2 International Monetary Fund (IMF)

Moldova joined the IMF in August 1992. Due to early transition successes, Moldova initially had access to the IMF Stand-by Agreement Facility conceived for middle-income countries. As the economic conditions worsened, Moldova was granted access to IMF's concessional PRGF. The last IMF programme was launched under the PRGF in 2000 for the duration of 3 years and for an amount equivalent to SDR110.88 million (approximately €118 million on 21 December 2000). Three tranches, totalling nearly €31.5 million were disbursed in December 2000, February 2001 and August 2002. In 2002, Moldova went off track with the programme and the IMF suspended payments. The programme expired at the end of 2003 and was not renewed. The suspension of the IMF programme has also impeded negotiations with the Paris Club on a rescheduling of Moldova's bilateral debt.

Although the last IMF Article IV Executive Board Consultation in February 2005 was cautiously optimistic, a new IMF programme is unlikely before the end of 2005. The IMF maintains a close policy dialogue on the reform priorities with the authorities. The IMF is assisting the authorities to effectively implement a credible and well articulated reform programme in line with the EGPRSP and the EU-Moldova Action Plan.

4.3 World Bank Group

Moldova joined the **World Bank** (WB) in 1992 and the International Development Association (IDA) in 1994. Moldova became eligible for concessional credits from IDA in 1997. Since joining the World Bank, Moldova has received financing for 42 operations, including 4 adjustment IBRD loans and IDA credits, with a total commitment of $592 million of which $413 million have so far been disbursed. At present there are 11 operations under implementation, with a net commitment of $148 million of which 62% is undisbursed. Three other operations are under preparation (in education, private sector development and the rural sector) for a total amount of $30 million. Initial lending focused on adjustment support, building a private sector in both agriculture and manufacturing and improving the economic and financial management of the energy sector.

Disbursements under the WB's Structural Adjustment Credit III (SAC III) for an amount equivalent to $20 million were cancelled in December 2003 due to non-fulfilment of conditionalities. The programme was not renewed when it expired in 2003. The aim of the SAC III programme was to support the Government's reforms programme aimed at creating conditions for sustainable growth and improving living standards.

The current Country Assistance Strategy (CAS) of the WB for Moldova was adopted in December 2004 and covers 2005-2008. It is aligned with the EGPRSP and its overall objective is to contribute to poverty alleviation. Under the CAS, new lending will total $90 million of which about 50% would be provided in grants for fiscal year 2006.

Budget support would be contingent, among others, on a solid track record of improvements in the business environment and public sector governance.

Since Moldova became a member in 1995, the **International Finance Corporation** (IFC) has committed $57 million of its own funds and arranged $25 million in syndications for supporting the power, telecommunications, agribusiness, SMEs, and the financial sectors. In addition, IFC has also supported technical assistance projects in banking, tourism, wineries, food processing, and leather industries. Going forward, IFC will maintain its support in helping develop private enterprises, by providing long-term funding through local banks and through assistance for attracting foreign strategic investors.

IFC's current strategy for Moldova aims to support the development of private enterprises, especially by providing them with long term funding through local banks and to strengthen the Moldovan banking sector. IFC will also pursue opportunities to support infrastructure development, which is vital for private sector growth and poverty alleviation in Moldova.

Moldova has been a member of the **Multilateral Investment Guarantee Agency** (MIGA) since 1993. MIGA guarantees facilitated approximately $63.7 million of foreign direct investment (FDI) in the power, financial and real estate sectors. It has also been involved in mediating disputes (in the power sector) and provided technical assistance to formulate and implement strategies for attracting FDI, with advice and tailored assistance to public and private organizations in image-building, sector-targeting, outreach and information dissemination. MIGA's online information service has 153 documents for Moldova pertaining to investment opportunities and other related legal and regulatory issues.

4.4 European Union (EU)

The EU plays an increasingly important role in supporting the transition of Moldova. In March 2005 the European Council appointed a Special Representative for Moldova to contribute to the peaceful settlement of the conflict surrounding the secessionist region of Transnistria. The opening of an EU Delegation in Chisinau, announced for the second half of 2005, responds to Moldova's requests for closer ties with the EU and will no doubt facilitate the implementation of EU assisted programmes in Moldova.

EU activities in Moldova are framed within the Partnership and Cooperation Agreement and the European Neighbourhood Policy (ENP). The EU-Moldova Action Plan, adopted by the EU and Moldova in February 2005, sets forth the strategic objectives of the ENP cooperation between Moldova and the EU for the next three years. The EU-Moldova Action Plan covers the following priorities: democracy and rule of law, economic development and trade, justice, liberty and security issues and sector specific issues. Implementation of the EU-Moldova Action Plan will advance the approximation of Moldovan legislation, norms and standards to those of the EU and will support Moldova's ambition of further integration into European economic and social structures.

Since 1991 the EU has provided €253 million in technical assistance. This includes among others assistance provided under TACIS and the Food Security Programme, humanitarian assistance and macro-financial aid through balance of payments loans and grants. EU macro-financial assistance is currently put on hold following the suspension of the IMF programme and will expire at the end of 2005.

4.5 European Investment Bank (EIB)

In December 2003, the European Council granted the EIB a mandate for financing selected projects in Russia as well as, subject to certain conditions, Ukraine, Moldova and Belarus, for an amount of €500 million in the areas of environment and transport, telecommunications and energy infrastructure on priority TEN axes with a cross-border aspect for EU Member States. The final EU Council Decision rendering this mandate effective is expected in 2005.

4.6 United Nations (UN)

Moldova became member of the United Nations in 1992. Since that time, various UN Agencies have launched their programmes in the country in order to assist it. The United National Development Programme (UNDP) is the main body for coordinating the United Nations development work. It provides policy advice and helps build institutional and human capacity that generates equitable and sustainable growth. UNDP has committed $20.5 million to Moldova between 1993 and 2004. For 2005, UNDP plans to commit another $6.7 million. The UNDP programme in Moldova is organized around two major themes: governance and sustainable livelihoods. Specific programme interventions are aimed, inter alias, at strengthening local governance, facilitating the judicial reform, promoting human rights and gender equality, protecting the environment, improving the external debt management and facilitating the development of tourism in the country.

4.7 Black Sea Trade and Development Bank (BSTDB)

Moldova is a founding member of the BSTDB which started its operations in 1999. The BSTDB has one active operation in Moldova: a $3.19 million guarantee facility to ProCredit. The BSTDB’s current country strategy for Moldova covers 2005-2006 and focuses primarily on the private sector particularly financial intermediation.

4.8 Bilateral Donors

The United States of America is the single largest bilateral donor in Moldova. Since 1993, the **United States Agency for International Development (USAID)** has provided more than $425 million in technical assistance. USAID's development assistance programme in Moldova focuses on a limited number of priority objectives established in its 2001-2006 Moldova Strategic Plan including: private enterprise development (primarily support for private agriculture, micro-enterprises and small business); strengthening the capacity of local government and independent community organizations to tangibly address local community priorities; promoting health programmes that address the most critical public health issues in Moldova, such as tuberculosis, HIV/AIDS and viral hepatitis B&C; and addressing the problem of trafficking in women through activities focused specifically on the economic roots of trafficking. Since 1997 the **United States Department of Agriculture (USDA)** has provided more than $32 million in humanitarian aid and technical assistance food aid programmes to Moldova. Over two million Moldovans have benefited from USDA programmes. Food aid development projects have focused on rehabilitation of the agricultural sector, farmer training, small scale infrastructure development, plus health and nutrition education and training. Humanitarian assistance has been provided to vulnerable families, orphanages, hospitals and pensioners. For 2005, US Government agencies plan to provide an aggregate $21.7 million to finance democracy programmes ($5.8 million), economic and social reform ($6.6 million), security and law enforcement ($3.4 million) and humanitarian assistance ($0.4 million).

Swedish support to Moldova started in 1996, through the appointment of an advisor to the Government within the framework of a UNDP-administered democracy-project. From 1998 onwards, Swedish support to Moldova has increased. Between 1996 and 2003, **Swedish International Development Cooperation Agency (SIDA)** has provided approximately €19 million. SIDA's strategy for 2004-2006 focuses on democratic governance, debt rescheduling, sustainable development and economic growth to alleviate poverty, prevention of social exclusion and promotion of public health. Sweden has a flexible budget system. Funds are allocated according to need and recipient country capacity. For 2004-2006 SIDA's objective is to increase the volume of cooperation to an annual amount of up to €10 million.

The United Kingdom's **Department for International Development (DFID)** has been active in Moldova since 1991 and has provided up to £14 million in technical assistance. The annual technical assistance continually increased during the last few years, building up from £1 million in 1999 to around £2.3 million per annum in 2004. The current programme covers the period 2004 to 2007 and focuses on improving governance and the institutional environment for poverty reduction, promoting pro-poor sustainable growth and conflict resolution and peace building.

To date Germany's **KfW Entwicklungsbank** has committed to Moldova an aggregate amount of €10.22 million consisting of a €2 million financing of agro-service stations in the sugar sector, a €3.6 million credit-line to Procredit and €4.6 million investment in social infrastructure. In 2003, the cooperation was discontinued but Germany indicated that it might resume its cooperation with Moldova at a lower level.

Switzerland has been active in Moldova since 2000, providing assistance especially in the way of humanitarian aid. In 2004 the **Swiss Agency for Development and Cooperation (SDC)** strengthened its support of the transition process mainly in economic and social sectors. The **Swiss State Secretariat for Economic Affairs (SECO)** funded the Bank's technical assistance project on mortgage reform.

The Netherlands' technical assistance budget amounts to €3.6 million. Its main goals are to contribute to the development of a market economy, the strengthening of the competitiveness and modernisation of private enterprises and the development of sustainable processes of production in industrial and agricultural sectors. As of 2005 Dutch-Moldovan joint ventures could qualify for grants under the Netherlands' Programme for Cooperation with Emerging Markets (which has an annual budget of €51 million for 42 countries).

Denmark has been active in Moldova since 1998 in particular on environmental issues and NGOs support. The Danish Environmental Assistance to Eastern Europe (DANCEE) has provided approximately €5 million to Moldova in technical assistance to date mainly to improve water management and to implement the Aarhus Convention. Although Denmark is no longer directly engaged in Moldova, Moldova has been included in a Regional Anti-Human Trafficking Programme (together with Ukraine and Belarus) funded by Denmark. The programme is due to start in October 2005 and is expected to last 3 years with a total budget of €3.5 million.

Norway has been supporting the social, economic and democratic development of the Republic of Moldova since 1994. To date Norway has provided an estimated €6.1 million. Norway has recently increased its assistance from €1 million in 2004 to €2.2 million in 2005. Norway's assistance focuses primarily on improving border control, withdrawing or destroying ammunition in Transnistria, developing statistics, improving medical facilities, assisting disabled children and fighting against tuberculosis.

ANNEX 1 – SIGNED BANK OPERATIONS

Table 1: Commitments and Net Portfolio by Sector as of June 2005

Sector	COMMITMENTS (€ million)					NET PORTFOLIO (€ million)		
	No. of Projects	Total Project Cost	EBRD Funding	EBRD % of Total	Disbursed	No. of Projects	Portfolio	% of Portfolio
Financial Institutions	**22**	**79.2**	**62.1**	**35%**	**45.9**	**17**	**27.0**	**31%**
Infrastructure	**8**	**152.1**	**77.8**	**44%**	**64.4**	**7**	**50.6**	**59%**
Energy	*3*	*65.0*	*33.9*	*19%*	*28.6*	*3*	*29.8*	*35%*
Water and Sewage	*1*	*31.7*	*17.1*	*10%*	*17.1*	*1*	*12.2*	*14%*
Transport	*3*	*54.2*	*25.9*	*15%*	*17.9*	*3*	*8.6*	*10%*
Telecommunications	*1*	*1.3*	*0.8*	*0%*	*0.8*	*0*	*0.0*	*0%*
Private Enterprise	**6**	**66.6**	**37.8**	**21%**	**37.6**	**4**	**8.4**	**10%**
Agribusiness	*5*	*65.8*	*37.4*	*21%*	*37.4*	*3*	*8.0*	*9%*
General Industry	*1*	*0.8*	*0.4*	*0%*	*0.2*	*1*	*0.4*	*0%*
Country Total	**36**	**298.0**	**177.7**	**100%**	**147.9**	**28**	**86.0**	**100%**

Table 2: Commitments and Net Portfolio by Class and Investment Type as of June 2005

	COMMITMENTS (€ million)					NET PORTFOLIO (€ million)			
	No. of projects	Total Project Cost	EBRD Funding	% of total EBRD	Disbursed	Portfolio	% of Portfolio	Undrawn commitment	Operating assets
Private	*29*	*170.4*	*104.9*	*59%*	*75.1*	*56.5*	*66%*	*16.0*	*40.5*
Public	*7*	*127.6*	*72.8*	*41%*	*72.8*	*29.5*	*34%*	*0.0*	*29.5*
Country Total	**36**	**298.0**	**177.7**	**100%**	**147.9**	**86.0**	**100%**	**16.0**	**70.0**
Sovereign	*7*	*143.6*	*89.3*	*50%*	*89.3*	*24.8*	*29%*	*0.0*	*24.8*
Non-Sovereign	*29*	*154.4*	*88.5*	*50%*	*58.6*	*61.2*	*71%*	*16.0*	*45.2*
Country Total	**36**	**298.0**	**177.7**	**100%**	**147.9**	**86.0**	**100%**	**16.0**	**70.0**
Debt	*24*	*224.6*	*139.7*	*79%*	*127.7*	*68.9*	*80%*	*12.1*	*56.8*
Equity	*3*	*8.7*	*6.3*	*4%*	*6.3*	*6.3*	*7%*	*0.0*	*6.3*
Guarantee	*3*	*4.9*	*4.9*	*3%*	*0.0*	*2.6*	*3%*	*2.6*	*0.0*
Debt+Equity	*5*	*56.1*	*23.1*	*13%*	*13.9*	*5.3*	*6%*	*1.2*	*4.1*
Guarantee+Debt	*1*	*3.7*	*3.7*	*2%*	*0.0*	*2.9*	*3%*	*0.1*	*2.8*
Country Total	**36**	**298.0**	**177.7**	**100%**	**147.9**	**86.0**	**100%**	**16.0**	**70.0**

ANNEX 2 – POLITICAL ASSESSMENT

Compliance with Article 1

Moldova is committed to and has made progress in applying the principles of multi-party democracy and pluralism in accordance with Article 1 of the Agreement Establishing the Bank. The record on democratic and market reform over the past strategy period has been uneven. However, the ruling Communist Party of Moldova (CPM), which once again won a majority of seats in the recent parliamentary elections, reinforced its commitment to European integration in the course of the campaign. This is a welcome development, as it entails political and economic policy adjustments that, if implemented successfully, would be fully consistent with the Bank's Article 1 mandate.

Political Accountability

According to its Constitution, Moldova is a multi-party parliamentary democracy in which the unicameral Parliament is elected through proportional representation and the President is elected by the Parliament. 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, as amended in 2000, provides for the separation of powers, checks and balances and an independent judiciary. In practice, the executive has wide powers and checks on executive privilege have been relatively weak.

Moldovan citizens have the right to change their Government through periodic elections held on the basis of universal suffrage. Elections in Moldova generally have been judged free and fair by international observers, though some problems have been noted. The parliamentary election held on 6 March 2005 "generally complied with most OSCE and Council of Europe commitments and other international election standards", according to the International Election Observation Mission (IEOM) organised under OSCE auspices. Overall, "a competitive and pluralistic party system offered voters a genuine choice". Nevertheless, the IEOM report said, elections fell short in some important areas that are central to a competitive election process, such as equal campaign conditions for all contending parties and open media access. The Civic Coalition for Free and Fair Elections, a civil society initiative made up of around 200 non-governmental organisations in Moldova that fielded more than 2,000 independent elections observers, issued an election assessment in broad agreement with the OSCE findings.

The results of the 2005 parliamentary elections returned the incumbent majority party, the CPM to power with 56 out of 101 parliamentary seats, while political opposition took the remaining 45 seats. Although the CPM still dominates the presidency and the Government, the more balanced results of the voting has already induced greater compromise with some elements of the opposition and could in future impose stronger checks and balances in the system.

Moldova has a large NGO sector and civic engagement is strong. However, many NGOs face a difficult operating environment due to financial constraints and institutional obstacles, some of which stem from Government policy. For example, the Government has taken steps to limit NGOs' access to foreign sources of funding and many NGOs complain of administrative barriers and political pressure from national and local authorities. In some sensitive sectors, such as media freedom and civil/political rights, this is especially problematic. Paradoxically, local and national Government bodies have sought to strengthen civil society by creating several state-sponsored NGOs, which crowd out those believed to be disloyal and compete for scarce funding from official sources.

The Rule of Law

The Constitution provides for an independent judiciary; however, in practice there have been credible reports of political pressure influencing court decisions and corruption among judges is believed to be widespread. The Constitutional Court, which has exclusive authority in ruling on the constitutionality of all laws and decrees, is regarded as fair and independent.

Corruption is a serious problem. The Transparency International Corruption Perceptions Index for 2004 had Moldova scoring 2.3 out of a possible 10, where ten is least corrupt. That rating is below TI's 3.0 threshold for "rampant" corruption, and is slightly lower than the rating in 2003. Moldova ranks 114th out 146 countries included in the 2004 index. National surveys also show a high incidence of corruption in several spheres of business and social life, though experts suggest the situation may be even more serious than surveys indicate, since many people are reluctant to talk openly about corruption with interviewers. Representatives of SMEs in Moldova report that corruption is a major obstacle to doing business for smaller firms, and this is supported by surveys such as the EBRD/World Bank Business Environment and Enterprise Performance Survey.

As part of its commitments under the EU-Moldova Action Plan, the EGPRSP, and various other Government programmes, the authorities have begun to pay more attention to the problem of corruption and the rule of law. On the former, the two pronged approach articulated by the authorities thus far involves steps to reduce arbitrary state intervention in the economy (through de-regulation) and steps to reform the public sector (shrinking the size of the bureaucracy and creating a professional and well-paid civil service). On the latter, the EU-Moldova Action Plan calls for the strengthening of law enforcement and increasing the efficiency, independence and impartiality of the judiciary.

Civil and Human Rights

The Government of Moldova generally adheres to its Council of Europe and OSCE commitments to uphold democratic standards of governance and to guarantee 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 main source of concern is media freedom. Moldova has approximately 80 TV and radio channels officially registered, an increasing number of which are private. However many of them receive significant subsidies from the Government, political patrons and/or commercial interests, and not all of them chose to cover the election campaign. Biased coverage in favour of the incumbent party by public television Moldova 1 and state-owned TeleRadio Moldova during the campaign limited voters' access to information, according to domestic and international election observers. The printed media is diverse and offers a variety of political opinions.

Although Moldova has been cooperating with the Council of Europe on improving the legal framework for the media, some significant problems remain. For example, libel has been decriminalised, in accordance with international standards, however awards in libel cases tried under the civil code can be extremely high. Some media outlets received fines of up to $100,000 in 2004. For these and other reasons, the US NGO Freedom House rates the media in Moldova as "not free". Under its agreement with some parties in the political opposition that supported the current President, Vladimir Voronin's, re-election bid, the authorities have pledged to strengthen media freedom and reduce the state's role in both broadcast and print media. In keeping with this agreement, the Government liquidated one state newspaper, Nezavisimaya Moldova, in May 2005.

External Relations

The current leadership in Moldova has pursued co-operative relations with all its main international partners, including the CIS, the EU, Russia, Ukraine, Romania and the United States. Moldova is a member of the WTO and the Stability Pact for Southeastern Europe, and participates actively in the GUAM group which includes Georgia, Ukraine, Azerbaijan and Moldova. The Moldovan authorities have shown strong interest in improving ties with Europe and furthering European integration. The EU's European Neighbourhood Policy, offers the possibility of a significant degree of economic integration and political cooperation, which the Government increasingly has embraced. The Government has adopted a "Concept for the Integration of the Republic of Moldova into the EU", and in February 2005 the EU and Moldova adopted the EU-Moldova Action Plan. The EU-Moldova Action Plan covers crucial policy reforms in areas such as strengthening democratic institutions and the rule of law, independence of the judiciary, media freedom, the business environment and structural reform, trade and customs, and trafficking.

The Transnistria conflict has remained frozen, following the loss of support for the federalisation plan pursued throughout 2002 and 2003. Tensions between the breakaway territory and the rest of Moldova were high in 2004, due to the controversial decision taken by the leadership in Tiraspol to close several schools in Transnistria that continued to teach Romanian language using the Latin alphabet. However, immediately following the elections in March 2005, prospects for a settlement began to brighten somewhat. With recent political changes in Ukraine and Romania, as well as the strong pro-European commitments by the new Moldovan Government, the momentum behind a new plan began to grow. The Ukrainian Government, a participant in the five-party framework to resolve the Transnistria problem, proposed a settlement plan in May 2005.

The seven-point plan includes the following:

- Reintegration of Moldova on the basis of unity of territory and democratic governance;
- Preservation of the constitutional order of the Republic of Moldova and legal determination of the special status of Transnistria as an integral part of the Republic of Moldova;
- Respect for the independence, sovereignty and territorial integrity of Moldova within its internationally recognised borders;

- Enshrining fundamental human rights and freedoms;
- Establishment of common legal, economic, defence, social, customs and humanitarian space necessary for the functioning of government;
- Ensuring civil and inter-ethnic understanding, strengthening peace and stability in the region; and
- Final removal of all consequences of the conflict and the creation of a multi-layered system of international mutual guarantees.

The plan calls for implementation over an 18-month period, but there are many issues still to be resolved and keeping to this timetable could prove difficult. The Moldovan Parliament unanimously endorsed the proposal in a vote in mid-June 2005.

ANNEX 3 – ASSESSMENT OF MOLDOVA'S COMMERCIAL LAWS

The Bank 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, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws "on the books" (also referred to as "extensiveness") and the actual implementation of 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 of the Bank's legal experts who have conducted the assessments.

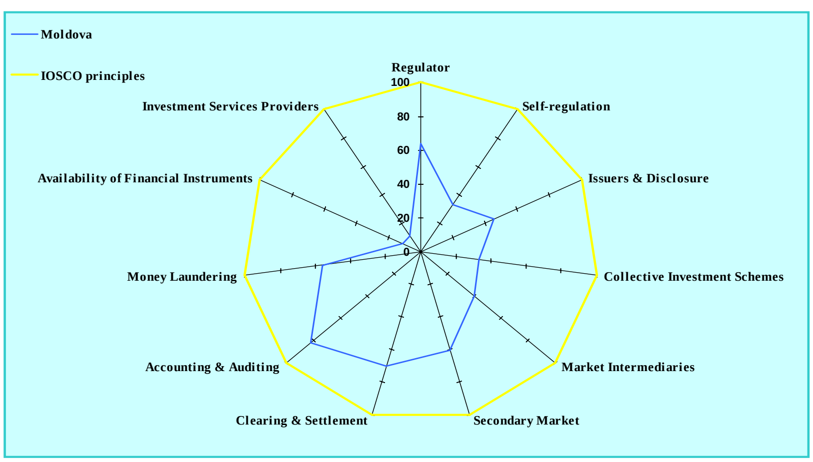
Capital Markets

The principal laws governing the Moldovan capital market are the "Law on Securities Market" of 1998, as amended in 2002, the "Law on the National Securities Commission" of 1998 as amended in 2003, the "Law on Investment Funds" of 1997, as amended in 2002, the "Law on Audit" of 1996, as amended in 2003, and the "Law on Prevention and Combating of Money Laundering" of 2001, as amended in 2003. In addition, in April 2005, a new law on leasing, drafted with the Bank's assistance, was approved by the Parliament.

The regulator for the Moldovan securities market is the National Commission for Securities of Moldova (MNCS). The Moldova Stock Exchange was established in December 1994 and trading began in 1995. However, trading activity remains low and the market is substantially under-developed.

When the Bank benchmarked the Moldovan securities markets legislation against the "*Objectives and Principles of Securities Regulation*" published by the International Organisation of Securities Commissions (IOSCO) in its 2004 Securities Market Legislation Assessment, the results demonstrated that its legislation is in "*low compliance*" with international standards (see chart below).

Quality of securities market legislation –Moldova (2004)



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 2004

Among the various shortcomings evidenced, the MNCS is not fully independent and the provisions concerning its supervision on the market need improvement. The MNCS can impose fines but they are largely inadequate. Also, legislation on self-regulatory organisations (SROs) is partly inadequate and no procedure exists to ensure that SROs exercise their power in the public interest and to ensure cooperation with the regulator for enforcement of applicable laws and regulations.

No contingency plans or other measures are in place to protect investors in case of an intermediary's insolvency, market disruption or system failure. There are no provisions in place against front running and no mechanisms for identification of large exposures. Only few regulated and defined financial instruments are available and investment service providers are not specifically defined and regulated.

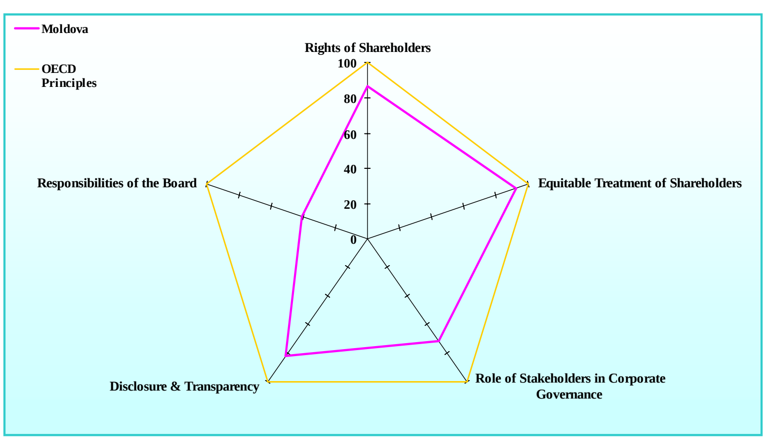
Company Law and Corporate Governance

The Law on Joint Stock Companies (the JSC Law) was adopted in 1997 and has been amended several times since then, most recently in December 2002.

In 2003 the MNCS issued a statement on the importance of corporate governance in Moldova but so far, no actions have been undertaken. The drafting of a corporate governance code by the MNCS is still at an early stage.

In 2003, the Bank conducted an assessment on the extensiveness (i.e. "law in the books") of Corporate Governance in which Moldova was rated "high compliance" when benchmarked with the OECD Principles of Corporate Governance. Notwithstanding the good rate achieved, some shortcomings in the laws on the books still remain. In particular, the law does not require that, within the same class, shareholders have the same voting rights. As evidenced by the chart below, the duties of the board are not clearly defined. There are no binding provisions concerning non-executive directors and specific committee in charge of financial reporting, executive and board remuneration and nomination. The authority of the board to increase the authorised capital by up to 50% of its value, as of the last general meeting of shareholders, and issue shares, without a shareholders vote is against international principles and can be used for minority shareholding dilution practices.

Quality of corporate governance legislation – Moldova (2003)



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 2003

The mandatory annual external audit provisions raise concern: it was compulsory till 2001 for JSCs with more than 50 shareholders, then it was first limited to JSCs with more than 300 shareholders and in the end it was abolished.

Nominee ownership is allowed by law and does not positively contribute to disclosure of ultimate ownership and control positions, to the control of cross-shareholdings or to the transparency of the market for corporate control.

Telecommunications

The telecommunications sector is currently governed by the Telecommunications Law of 1995, as amended through to 2001, and is regulated by ANRTI. ANRTI was established by decision of the Government in 2000 and is responsible for licensing, establishing interconnection principles and rules, allocating radio frequencies and settling disputes between operators. The policy maker for the sector is the Ministry of Transport and Communication.

State-owned Moldtelecom is the primary provider of fixed telephony services. As part of Moldova's accession to the World Trade Organisation (WTO), Moldtelecom lost is legal exclusivity over local, long distance and international fixed line telephony in January 2004, in line with the requirements of the WTO "Reference Paper" on telecommunications. Notwithstanding the loss of this exclusivity, Moldtelecom still dominates the country's fixed-line sector. While a number of alternative operators are currently licensed to offer fixed-line services in Moldova, only two currently offer such services.

The Government has made a number of unsuccessful attempts to sell the state holding in Moldtelecom. The most recent was in 2002 which concluded with a rejection by the Government of an offer by the only bidder, Moscow City Telephone Network (MGTS). The self-styled breakaway Dniester Moldovan Republic has been conducting its own sector reform and privatisation programme with the publicly held Trans-Dniester Telecom being sold in 2003 to a regional operator of fixed-line, mobile and Internet services.

The Government has recently decided that a third mobile licence to include rights to provide third-generation (3G) services will be offered by public tender during 2005 following the invalidation of a previous attempt by the Government to award this licence directly to the Transdniestrian operator, InterDnestrCom.

The key to sector development and the achievement of sector targets is liberalisation and private sector-led provision of services. Whilst the Government appears to have made strides towards reform of the sector to date, much will depend upon the practical implementation of those reforms. While liberalisation is formally in place, the dominance of Moldtelecom in the market for fixed line services means that competition will take time to effective and meaningful. To encourage new operators (and therewith investment) into the market the authorities will now need to ensure the full and timely implementation of the necessary secondary legislation and regulatory mechanisms. In particular, the Government will need to ensure that there is appropriate support for ANRTI in its implementation of sector reform initiatives and that its independence is enhanced and protected. Further measures will include continuation with the tariffing programme and full implementation of an interconnection regime best suited to a market at the early stages of liberalisation. Additionally, the authorities should ensure that the forthcoming licensing of a third mobile operator is carried out in a fair, transparent and non-discriminatory manner, according to international best practices.

Concessions

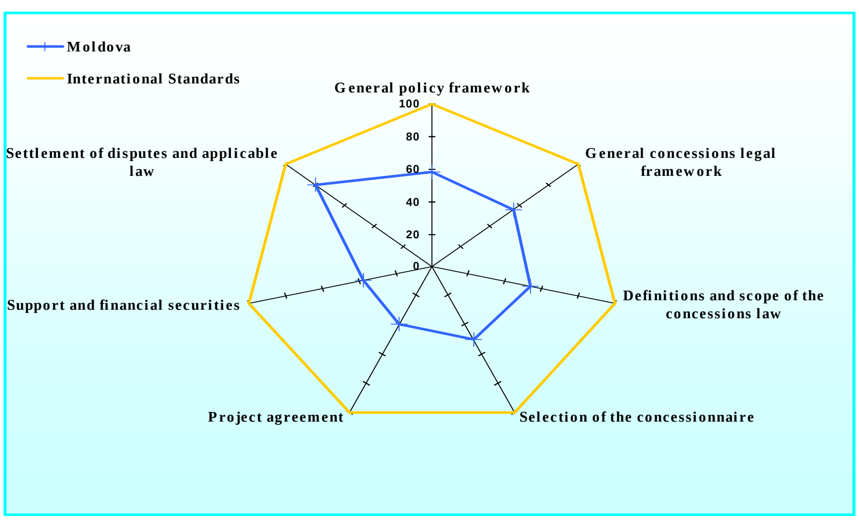
Moldova has a special Law on Concessions of 1995, as amended in 1999 and 2002 (the Concessions Law). The scope of application of the Concessions Law and rules regulating the selection procedure are clear and the concession definition includes the notion of a "risk". Another positive feature is that it is one of the few laws in the region that expressly refers to the grantor's participation in concession company's bodies.

Under the Concessions Law, any company or individual, domestic or foreign, save for a state or a municipal entity, may be a concessionaire. The Concessions Law does not provide for a list of sectors that may be developed on a concession basis. Instead, it states that concession arrangements are permitted in any sector and activity to the extent this does not contradict the laws of Moldova.

The concessionaire's right to compensation is provided for by means of court procedures. According to the Concessions Law, disputes may be resolved either by court proceedings or by arbitration (including international). The Concessions Law provides for the right of concession granting authorities to unilaterally change the terms of a concession agreement on certain specific grounds listed in the Concessions Law. Unfortunately, the grounds for termination, however, seem vague.

A clear disadvantage of the Concessions Law is that any transfer by a concessionaire of concession assets/rights is prohibited. This statutory restriction inevitably limits financing options. Certain provisions in relation to the project agreement may give rise to inflexibility in negotiations. Worrying too is the fact that the Concessions Law contains no specifications on security interests to be created by the concessionaire or on lender's rights.

Quality of concession legislation –Moldova (2004)



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.

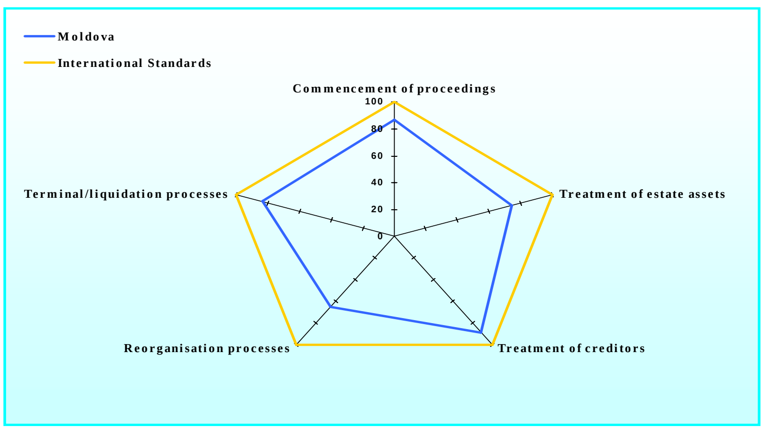
Source: EBRD Concessions Sector Assessment 2004

The Bank recent Concession Laws Assessment project undertaken to evaluate applicable regime throughout the 27 countries of Bank operations (the laws on the books only rather than how they work in practice), revealed that Moldovan laws had "medium compliance" with internationally accepted standards in this sector. As can be seen from the chart above, while rules covering settlement of disputes in concession-related arrangements, for instance, are regulated fairly extensively, most other areas, and in particular, project agreements and availability of financial instruments and state support need to be further improved in order to meet requirements of modern legal framework facilitating private sector participation.

Insolvency

Bankruptcy and insolvency in Moldova are governed primarily by the Law on Insolvency of the Republic of Moldova (2001) (as amended) (the Insolvency Law), one of the leading insolvency laws in the Bank's countries of operations. In the Bank's 2003-04 Sector Assessment Survey, which measured the compliance of insolvency legislation with international standards, the Insolvency Law was one of only 6 laws to receive an overall score of "high compliance".

Quality of insolvency legislation –Moldova (2004)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the international standards such as the World Bank's Principles and guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on "Legislative Guidelines for Insolvency Law", and others. The fuller the 'web', the more closely insolvency laws of the country approximate these standards.

Source: EBRD Insolvency Sector Assessment Project, 2003/4

The Insolvency Law is one of few in the Bank's countries of operations that effectively deals with the avoidance of pre-bankruptcy transactions. This law provides sufficient detail to determine which types of transactions will be subject to challenge and the circumstances that must be established to effect such a challenge. Although reorganisation processes were the weakest area of performance for this legislation (see above chart), it still provides for a relatively well-designed reorganisation process.

The results of the Bank 2004 Legal Indicator Survey on Insolvency showed that for debtors and creditors seeking to commence insolvency proceedings in Moldova, it is relatively easy to determine which court such proceedings should be commenced and the degree of formality required to access the insolvency process does not present a huge obstacle. The process, however, is seen as far too expensive and the courts cannot generally be relied upon to deal with insolvency matters in a predictable and competent manner.

The survey also revealed that in general, it is somewhat easier for debtors to access insolvency systems in Moldova than creditors. This is consistent with most of the Bank's countries of operations and reflects, in part, the fact that the initial access of the insolvency regime by creditors is usually quite contentious. Debtors, by contrast, can often commence proceedings and obtain an initial order under the insolvency regime with little notice to creditors and, therefore, without the need for protracted court proceedings.

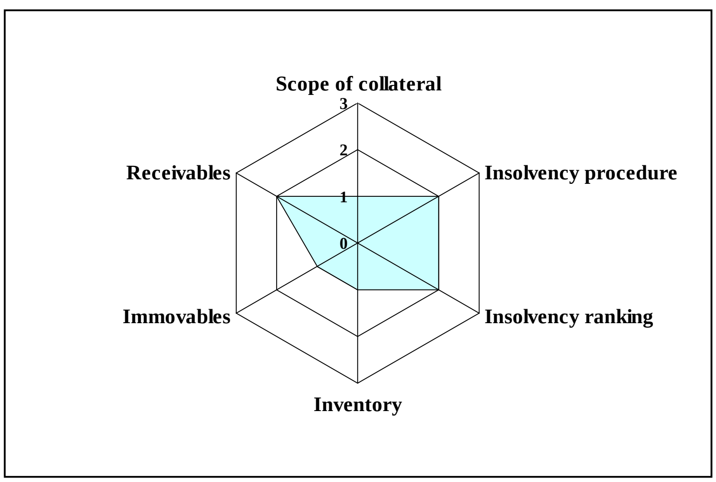
Secured Transactions

The secured transactions legal regime in Moldova is quite unique in the region in that whereas the legal provisions are generally sound, the users are somehow reluctant to use them to their full potential and there remain considerable problems with enforcement of security rights, which of course acts as a deterrent for its use in practice.

Security over movable assets and immovable 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 Bank, 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 it is said to be far from perfect, the system seems to be working. The biggest drawback is enforcement of the security.

In 2003, Bank conducted a survey on the enforcement of charges in its countries of operations and Moldova scored quite low: the time needed to enforce the security, the return on proceeds and steps involved were far from satisfactory. The graph below illustrates the main problems: courts and bailiff system are not well equipped in handling the process and there are reported corruption problems.

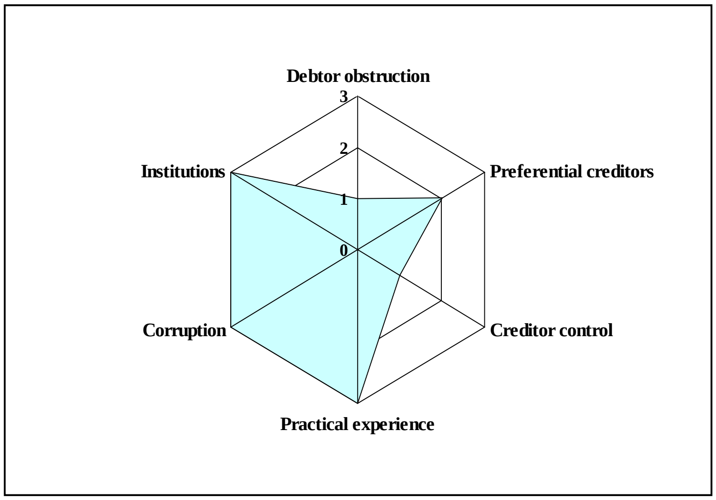
Obstacles to charge enforcement process – Moldova (2003)



Scope

Note: The fuller the half moons, the more serious the problems are in each of the respective categories. "Scope" factors relate to the ability of the system to deal with specific situations or items.

Source: EBRD Legal Indicator Survey 2003



Process

Note: The fuller the half moons, the more serious the problems are in each of the respective categories. "Process" factors measure the impact of specific incidences on the enforcement proceedings.

Source: EBRD Legal Indicator Survey 2003

As far as mortgages are concerned, the Pledge Law provides for basic, sufficient rules and the Land cadastre has recently been fully updated and computerised. However, the market feels unsure in the way the system can operate and there is a unanimous call for the development of a new mortgage law. Bank is currently assessing the feasibility of technical assistance in this respect.

ANNEX 4 – ENVIRONMENT

The Bank's environmental approach in Moldova is complementary to that of other organisations, given the Bank's private sector perspective. The WB focus its environmental interventions in the area of sustainable agriculture and biodiversity conservation by implementing a biodiversity conservation project in the lower Dniestr River, a soil conservation project and an agricultural pollution control project. These projects address soil contamination and degradation, deforestation and nutrient discharge from agricultural sources to the Danube River and the Black Sea. The Black Sea Investment Facility, a TACIS funded initiative, aims to alleviate pollution of the Black Sea by supporting waste water treatment projects in Moldova, Georgia, Ukraine and Russia.

The Bank has a three-prong approach to supporting environmentally sound and sustainable development in Moldova. Firstly, the Bank ensures that its local partner banks implement environmental due diligence procedures and thus support environmentally sound projects. Secondly, the Bank ensures that new stand-alone projects comply with the Bank's Environmental Procedures and Public Information Policy and incorporate, where appropriate, Environmental Action Plans into the legal documentation in order to address issues raised during due diligence. Thirdly, the Bank implements ad hoc environmental projects to address specific concerns. For instance, through its Electricity Safety Technical Cooperation Project, funded by the Canadian Government, the Bank aims to reduce the high incidence of fatalities from electrocution. The majority of these fatalities involve members of the general public, often children. The Bank works with relevant ministries in Moldova to create an inter-ministerial working group on electrical safety and involves the electricity distribution companies in the initiative. The project aims to improve operational safety in the electricity supply and distribution sector by increasing capacity building and transferring know-how from countries which have significantly lower accident rates. The project also aims to raise public awareness by establishing a national electrical safety week and by providing education for school children and training on electrical safety for teachers, electrical inspectors and labour safety inspectors. This programme and the materials prepared for it are designed to be replicable in other countries, once adapted for language and culture.

ANNEX 5 – SELECTED ECONOMIC INDICATORS

Moldova

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 *Estimate*	2005 *Projection*
Output and expenditure						*(Percentage change in real terms)*					
GDP	-1.4	-5.9	1.6	-6.5	-3.4	2.1	6.1	7.8	6.6	7.3	5.5
Private consumption	0.4	11.2	5.0	5.1	-13.8	27.6	6.1	5.9	17.0	na	na
Public consumption	24.3	-2.5	12.7	-18.9	-28.1	-17.9	-5.8	31.4	-0.7	na	na
Gross fixed capital formation	-14.9	-8.3	-0.2	1.5	-14.7	-0.7	5.2	1.1	8.7	na	na
Exports of goods and services	25.5	13.9	21.3	-22.1	-22.7	6.8	15.7	14.5	19.3	na	na
Imports of good and services	27.7	29.7	23.0	-11.0	-36.4	29.8	11.1	16.1	34.6	na	na
Industrial gross output	-3.9	-6.5	0.0	-15.0	-11.6	7.7	13.7	10.8	15.6	6.9	na
Agricultural gross output	1.9	-11.9	11.4	-11.6	-8.4	-3.3	6.4	3.4	-13.6	20.4	na
Employment						*(Percentage change)*					
Labour force (annual average)	-0.3	-0.6	-0.9	-0.7	1.4	-1.7	-2.3	-0.1	-8.8	-3.3	na
Employment (annual average)	-0.5	-0.8	-0.8	-0.2	-9.0	1.4	-1.0	0.4	-9.9	-3.4	na
						(In per cent of labour force)					
Unemployment (annual average) 1/	na	na	na	10.1	11.1	8.5	7.3	6.8	7.9	8.0	na
Prices and wages						*(Percentage change)*					
Consumer prices (annual average)	30.2	23.5	11.8	7.7	39.3	31.1	9.6	5.2	11.6	12.4	11.4
Consumer prices (end-year)	23.8	15.1	11.2	18.3	43.7	18.4	6.3	4.4	15.7	12.5	9.8
Producer prices (annual average)	54.0	32.0	20.0	9.7	44.0	28.5	12.3	4.7	7.8	5.6	na
Producer prices (end-year)	46.6	20.4	13.6	13.6	58.6	24.3	5.7	6.7	9.2	4.9	na
Gross average monthly earnings in economy (annual average)	32.1	30.7	17.5	13.9	21.6	33.9	33.3	27.2	28.8	23.9	na
Government sector 2/						*(In per cent of GDP)*					
General government balance (commitment basis)	-6.7	-8.0	-10.5	-7.4	-6.2	-1.8	-0.3	-2.2	1.1	0.4	-0.7
General government expenditure	46.2	43.8	49.0	44.9	36.6	34.5	29.4	31.5	33.3	35.7	34.2
General government debt	7.4	57.1	63.7	108.5	103.3	91.7	78.4	73.1	58.9	46.0	41.2
Monetary sector						*(Percentage change)*					
Broad money (M2, end-year)	32.3	1.4	21.1	-34.1	-7.2	17.4	29.6	24.9	7.6	28.6	na
Domestic credit (end-year)	64.7	18.8	26.8	29.2	18.1	14.4	29.6	25.2	24.3	25.8	na
						(In per cent of GDP)					
Broad money (M2, end-year)	17.1	16.6	19.5	14.9	14.7	15.7	18.2	20.0	20.4	25.4	na
Interest and exchange rates						*(In per cent per annum, end-year)*					
Refinancing rate	21.0	19.5	16.0	32.7	31.0	27.0	13.0	9.5	14.0	14.5	na
Tresuary bill rate 3/	43.7	37.1	23.3	29.1	28.6	22.1	14.5	5.8	15.1	11.6	na
Deposit rate 4/	32.5	22.0	23.2	21.0	27.4	24.6	20.6	14.4	12.7	15.2	na
Lending rate 4/	41.9	35.3	32.8	30.1	35.5	33.3	28.5	23.1	19.2	21.0	na
						(Lei per US dollar)					
Exchange rate (end-year)	4.5	4.7	4.7	8.3	11.6	12.4	13.1	13.8	13.2	12.5	12.9
Exchange rate (annual average)	4.5	4.6	4.6	5.4	10.5	12.4	12.9	13.6	13.9	12.3	12.8
External sector						*(in millions of US dollars)*					
Current account	-115	-188	-275	-335	-68	-98	-25	-67	-130	-113	-133
Trade balance	-55	-252	-348	-388	-137	-294	-313	-378	-623	-758	-800
Merchandise exports	739	823	890	644	474	477	567	660	805	995	1,050
Merchandise imports	794	1,075	1,238	1,032	612	770	880	1,038	1,429	1,754	1,850
Foreign direct investment, net	25	23	78	75	38	127	102	132	71	148	90
Gross reserves (end-year), excluding gold	257	312	366	143	186	222	229	269	302	470	522
External debt stock	668	1,065	1,285	1,451	1,495	1,721	1,675	1,815	1,925	1,924	2,000
						(In months of imports of goods and services)					
Gross reserves (end-year), excluding gold	3.0	3.0	3.1	1.4	2.8	2.7	2.5	2.5	2.1	2.6	2.7
						(In per cent of exports of goods and services)					
Debt service	9.9	5.5	13.0	25.0	32.5	16.4	16.8	14.0	13.1	10.6	10.5
Memorandum items						*(Denominations as indicated)*					
Population (end-year, millions) 5/	4.3	4.3	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.4
GDP (in millions of Lei)	6,480	7,798	8,917	9,122	12,322	16,020	19,052	22,556	27,619	31,992	37,599
GDP per capita (in US dollars)	332	391	528	465	321	353	407	458	547	719	868
Share of industry in GDP (in per cent)	25.0	26.9	25.0	19.9	20.3	19.0	21.8	20.2	20.9	na	na
Share of agriculture in GDP (in per cent)	29.3	27.5	26.0	25.8	24.9	25.4	22.4	21.0	19.1	na	na
Current account/GDP (in per cent)	-8.0	-11.1	-14.2	-19.7	-5.8	-7.6	-1.7	-4.0	-6.6	-4.4	-4.5
External Debt - Reserves, in US$ millions	411.5	753.0	919.0	1308.4	1309.3	1498.2	1446.5	1546.0	1622.3	1454.2	1477.7
External Debt/GDP (in per cent)	46.3	62.8	66.6	85.4	127.6	133.6	113.1	109.2	97.2	74.2	68.1
External Debt/ exports of goods and services (in per cent)	77.2	113.7	121.5	182.4	245.1	268.3	226.9	207.1	181.7	146.1	142.2

Notes:

1/ According to ILO methodology

2/ Consolidated accounts of the Republican government and the local authorities until 2002.

3/ Average yield of T-bills.

4/ Weighted average rate

5/ Excluding the population of Transnistria

ANNEX 6 – TECHNICAL CO-OPERATION PROGRAMME

Table 1: Technical Co-operation by Sector as of June 2005

Sector	€ Committed	€ Disbursed
Financial Institutions	3,068,681	3,028,548
Infrastructure	3,428,664	3,193,664
Private Enterprise	4,254,377	3,309,548
Legal Transition	834,395	781,237
Country Total	**11,586,117**	**10,312,996**

Table 2: Technical Co-operation by Donor as of June 2005

Donor	€ Committed	€ Disbursed
Belgium-Flanders	12,770	12,770
Canada	340,901	105,901
Denmark	120,692	58,299
EU	4,865,444	4,160,344
France	320,886	320,886
Germany	549,281	549,281
Greece	128,946	128,946
Italy	85,500	30,665
Italy-Central European Initiative	205,500	115,025
Japan	2,330,002	2,330,002
Netherlands	341,971	341,971
Switzerland	436,973	405,267
Taipei China	420,512	420,512
UK	401,218	369,192
US	745,847	745,847
Multi-donor Fund	142,059	120,607
Financial Sector Fund	137,616	97,482
Country Total	**11,586,117**	**10,312,996**

Table 3: Technical Co-operation as of June 2005

Reference	Commitment Name	€Committed	€Disbursed	Stage	Linked to Project
JAP-1994-02-04	Energy efficiency improvement study	140,085	140,085	Closed	Moldova Energy Efficiency, Chisinau District Heating Company Termocom
GERK-1995-12-01	Heat tariff study	173,818	173,818	Closed	Moldova Energy Efficiency, Chisinau District Heating Company Termocom
JAP-1996-07-18	Development of commercial management systems - Termocom	447,941	447,941	Closed	Moldova Energy Efficiency, Chisinau District Heating Company Termocom
	Subtotal	*761,844*	*761,844*		
HOL-1994-03-06	International audit for Victoria Bank	48,828	48,828	Closed	Victoria Bank Credit Lines and Equity Investment
UKB-1994-07-08	International audit for Victoria Bank	13,743	13,743	Closed	Victoria Bank Credit Lines and Equity Investment
ECT-1995-06-13	Credit adviser for Victoria Bank	204,669	204,669	Closed	Victoria Bank Credit Lines and Equity Investment
	Subtotal	*267,240*	*267,240*		
FRB-1993-06-07	Wine quality improvement and export promotion	172,191	172,191	Closed	Wine Export Promotion Project
HOL-1993-06-08	Wine sector investment programme - wine export packaging development	181,512	181,512	Closed	Wine Export Promotion Project
HOL-1994-03-05	Wine export promotion - project preparation of implementation framework	86,102	86,102	Closed	Wine Export Promotion Project
EC-1994-09-39	Wine export promotion - short-term expertise	222,935	222,935	Closed	Wine Export Promotion Project
JAP-1994-10-39	Wine export promotion	737,118	737,118	Closed	Wine Export Promotion Project
TAI-1997-08-06	Moldova wine investment framework facility	19,696	19,696	Closed	Wine Export Promotion Project
TCS-1998-09-07	Wine export promotion project	18,752	18,752	Closed	Wine Export Promotion Project
TAI-1999-08-08	Wine export promotion project	232,133	232,133	Closed	Wine Export Promotion Project
	Subtotal	*1,670,439*	*1,670,439*		
ECT-1995-06-08	Credit adviser for Moldova – Agroindbank	216,281	216,281	Closed	Moldova Agroindbank Credit Lines and Equity Investment
ECT98-98-12-51	Moldova Agroindbank senior convertible loan	249,571	249,571	Closed	Moldova Agroindbank Credit Lines and Equity Investment
MOLF-2003-12-01	MAIB Institutional Building Advisor	137,616	97,482	Disbursing	Moldova Agroindbank Credit Lines and Equity Investment

Reference	Commitment Name	€Committed	€Disbursed	Stage	Linked to Project
	Subtotal	*603,468*	*563,334*		
ECT-1995-06-10	Road rehabilitation design study	273,861	273,861	Closed	Moldova Road rehabilitation Project
JAP-1995-12-34	Assessment of road needs	324,075	324,075	Closed	Moldova Road rehabilitation Project
ECT97-2000-08-72	Pavement management systems	411,557	411,557	Closed	Moldova Road rehabilitation Project
	Subtotal	*1,009,494*	*1,009,494*		
TAI-1995-09-03	Advice on privatisation, legislation and policy - Moldtelecom - sector policy and regulatory development	93,272	93,272	Closed	
JAP-1995-11-31	Advisory services for the privatisation of Moldtelecom through an international competitive tender	470,000	470,000	Closed	
	Subtotal	*563,272*	*563,272*		
SWI-1995-09-04	Micro-lending scoping mission	42,602	42,602	Closed	Micro Lending Project
USAD-96-08-01PS	Swiss-American Micro Enterprise Programme	745,847	745,847	Closed	Micro Lending Project
SWI-96-09-03PS	Swiss-American Micro-Enterprise Programme	331,805	331,805	Closed	Micro Lending Project
	Subtotal	*1,120,254*	*1,120,254*		
UKB-1995-11-18	Assistance in developing a secured transactions law for Moldova	24,961	24,961	Closed	Legal Transition
UKB-1998-05-05	Assistance with the establishment of a registry for pledges (local consultants)	35,502	35,502	Closed	Legal Transition
UKB-1998-05-06	Assistance with the establishment of a registry for pledges	48,094	48,094	Closed	Legal Transition
BRSF-2003-10-03	Moldova : Improving Leasing Transactions Related Legislation	100,000	78,548	Disbursing	Legal Transition
SCRF-2004-12-02	Mortgage Transactions Reform in Moldova - Exploratory Project	62,566	30,860	Disbursing	Legal Transition
	Subtotal	*271,123*	*217,965*		
UKB-1998-03-03	TurnAround Management Programme - Floare Carpet SA	10,296	10,296	Closed	TAM Programme
DEN-1998-03-02	TurnAround Management Programme - Floare-Carpet SA	35,192	35,192	Closed	TAM Programme
ECT2000-2001-02-01/05	TurnAround Management (TAM) - Orhei-Vit SA	85,500	67,964	Disbursing	TAM Programme
ECT2000-2001-02-01/08	TurnAround Managment Programme - Floarea Soarelui SA	31,500	3,123	Disbursing	TAM Programme
ECT2000-2001-02-01/20	TurnAround Managment Programme - Pielart JSC	31,500	17,548	Disbursing	TAM Programme
ECT2000-2001-02-01/34	TurnAround Management Programme - Air Moldova SRL	85,500	84,720	Committed	TAM Programme
ECT98-2000-10-72/16	TurnAround Management Programme - Pielart JSC	39,086	39,086	Closed	TAM Programme

Reference	Commitment Name	€Committed	€Disbursed	Stage	Linked to Project
ECT99-2001-09-91/06	TurnAround Management Programme - Macon JSC	85,500	46,403	Disbursing	TAM Programme
TAI-1998-10-08	TurnAround Management Programme - Moldova metallurgical works (tied portion)	15,604	15,604	Closed	TAM Programme
TAI-1998-10-09	TurnAround Management Programme - Moldova metallurgical works	59,808	59,808	Closed	TAM Programme
UKB-1998-10-20	TurnAround Management Programme - Moldova Metallurgical Works	14,874	14,874	Closed	TAM Programme
ECT99-99-08-04/14	TurnAround Management Programme - Moldova Metallurgical Works II	85,500	38,142	Committed	TAM Programme
JAP-1997-07-17	TurnAround Management Programme - JSC Tirotex	11,500	11,500	Closed	TAM Programme
FLN-1997-08-01	TurnAround Management Programme - Tirotex	5,350	5,350	Closed	TAM Programme
UKB-1998-09-17	TurnAround Management Programme - JSC Tirotex II	87,312	87,312	Closed	TAM Programme
UKB-1998-11-23	TurnAround Management Programme - JSC Tirotex	29,054	29,054	Closed	TAM Programme
FLN-1997-10-02	TurnAround Management Programme - Moldavizolit	7,420	7,420	Closed	TAM Programme
HOL-1997-10-07	TurnAround Management Programme - Moldavizolit	15,275	15,275	Closed	TAM Programme
JAP-1998-01-01	TurnAround Management Programme - Moldavizolit	5,766	5,766	Closed	TAM Programme
FRB-1997-12-04/02	TurnAround Management Programme - Vitis Hincesti SA	66,387	66,387	Closed	TAM Programme
UKD-1999-04-06	TurnAround Management Programme - Vitis Hincesti SA	14,621	14,621	Closed	TAM Programme
CEI-2002-06-01/08	TurnAround Management Programme - Cricova Acorex	60,000	56,602	Committed	TAM Programme
DEN-2004-06-04	TAM - Orvento Metal Trading	85,500	23,107	Committed	TAM Programme
ITA-2004-06-05	TAM - Acorex Wine Holding	85,500	30,665	Committed	TAM Programme
CEI-2002-06-01/10	TAM - Codru	85,500	17,385	Committed	TAM Programme
CEI-2002-06-01/09	TAM Programme - CEI TAM Privatisation Support	60,000	41,038	Committed	TAM Programme
NLT-2004-02-01	Feasibility Study for a BAS Programme in Moldova	10,254	10,254	Closed	TAM Programme
ETCF-2005-04-08F	Implementation of the BAS Programme during 2005-2007 (3 years)	558,000	0	Committed	TAM Programme
	Subtotal	*1,767,299*	*854,495*		
ECT96-97-01-37	Chisinau water services - corporate development assistance	799,729	799,729	Closed	Chisinau Water Services Rehabilitation Project, Apa Canal

Reference	Commitment Name	€Committed	€Disbursed	Stage	Linked to Project
ECT99-2000-03-35	Chisinau Water Services Corporate Development Assistance	220,134	220,134	Closed	Chisinau Water Services Rehabilitation Project, Apa Canal
	Subtotal	*1,019,863*	*1,019,863*		
UKB-1997-11-20	Moldovan metallurgical works	90,735	90,735	Closed	
TCS-1997-11-08	Moldovan metallurgical works - environmental assessment	23,307	23,307	Closed	
CAN-1998-01-01	Moldovan Metallurgical Works - legal advice	25,901	25,901	Closed	
	Subtotal	*139,943*	*139,943*		
CAN-1999-05-03	Legal due diligence equity warehouse project	50,000	50,000	Closed	Moldova Power Distribution Equity Investment
GRE-1999-06-01	Power Distribution Equity Warehouse: Technical, Financial, Environmental Due Diligence	128,946	128,946	Closed	Moldova Power Distribution Equity Investment
JAP-1999-06-11	Power distribution equity warehouse - technical, financial, environmental due diligence	57,940	57,940	Closed	Moldova Power Distribution Equity Investment
JAP-1999-06-12	Legal due diligence equity warehouse project - legal due diligence	96,397	96,397	Closed	Moldova Power Distribution Equity Investment
JAP-1999-10-17	Power distribution equity warehouse - legal due diligence	39,180	39,180	Closed	Moldova Power Distribution Equity Investment
	Subtotal	*372,463*	*372,463*		
ECT2000-2001-10-13	Micro Enterprise Credit DIN S.A. (MEC), Moldova - Expansion of Office/Branch Network	578,285	578,285	Closed	MEC Moldova S.A.
EIPF02-2003-08-06	MEC Moldova - Management and Regional Expansion	299,436	299,436	Closed	MEC Moldova S.A.
GERK-2003-06-01	MEC Moldova - Management and Regional Expansion	200,000	200,000	Closed	MEC Moldova S.A.
	Subtotal	*1,077,720*	*1,077,720*		
FRB-1994-06-03	Solar energy and demand - side pre-feasibility study	49,979	49,979	Closed	
CA3F-2004-08-03	Moldova Electrical Safety	265,000	30,000	Disbursing	
GER-1995-01-01	Wholsale market feasibility study	175,463	175,463	Closed	
UKD-2004-10-05	Orhei Vit Technical & Financial Due Diligence	32,026	0	Committed	DIF Orhei Vit
ECT96-96-10-06	Investment led privatisation programme	386,900	386,900	Closed	
FRB-1994-04-01	Agro-processing and food distribution	32,329	32,329	Closed	
	Country Total	**11,586,117**	**10,312,996**		