DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR MOLDOVA

As approved by the Board of Directors on 4 September 2007.

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EXECUTIVE SUMMARY

Moldova is committed to and is making progress in applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank.

The ruling Communist Party of Moldova (CPM) secured a second governing mandate in March 2005 and subsequently reinforced its commitment to European integration. However, the record on democratic and market reform over the past strategy period has been uneven. The March 2005 national elections and June 2007 local elections generally conformed to international standards for democratic elections according to the Organisation for Security and Co-operation in Europe (OSCE). However, they fell short in some areas that are central to a genuinely competitive election process, such as media balance and access. Little progress has been made with regard to the breakaway territory of Transnistria. Despite the inclusion of the European Union (EU) and the United States as observers in the OSCE-brokered '5+2' negotiating framework, talks have stalled since early 2006.

Moldova's economy grew by an average of 7% from 2000 to 2005. However, Russia's ban on Moldovan wine imports and Gazprom's doubling of gas prices in 2006 slashed economic growth to just 4 per cent. Industrial production, in turn, declined by 6.9 per cent. Over-reliance on the Russian market for exports of Moldovan agricultural products and high external energy dependence underscore the risks inherent to the current economic growth model. Remittances from Moldovans working abroad, officially estimated at $1.17 billion in 2006 (approximately 35 per cent of gross domestic product (GDP)), have been the engine for economic growth in the past few years. Remittances will continue to provide substantial support to the economy in the years to come. The trade deficit has surged to 47 per cent of GDP in 2006 from an average of 25 per cent earlier in the decade, driven by a strong surge in remittance-financed imports, higher energy prices and barriers to Moldovan exports in the past two years.

Monetary policy was broadly adequate, but driven by conflicting objectives of price and exchange rate stability. Consumer price inflation remained above 12 per cent during the previous strategy period, reflecting the gas price increases, a weak supply response in light of growing aggregate demand, periods of weak monetary policy responses and adjustments of administrative prices. Moldova has pursued a prudent fiscal policy. The consolidated national budget recorded a surplus of 1.6 per cent of GDP in 2005, but reversed in 2006 to a modest deficit of 0.3 per cent of GDP. The Medium Term Expenditure Framework provides for a similar deficit target of 0.5 per cent of GDP in 2007 and 2008. A prudent borrowing policy and a new IMF programme followed by a Paris Club debt rescheduling in 2006 reduced the current external debt servicing burden. External debt stock increased to $2.5 billion (74 per cent of GDP) in 2006 from $2.08 billion (70 per cent of GDP) in 2005.

Moldova embarked on an ambitious reform programme with the adoption of the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) in May 2004 and the EU-Moldova Action Plan in February 2005. In May 2006 Moldova also signed a three-year programme with the IMF under its Poverty Reduction and Growth Facility (PRGF). Pursuant to these programmes Moldova undertook to implement wide-ranging structural reforms regarding among others public administration and finance, rule of law and investment climate. In the implementation of its reform programme, Moldova can count on substantial financial and technical support from the donor community, in particular the EU under its European Neighbourhood Policy (ENP) and the United States through USAID and the Millennium Challenge Corporation.

Although progress has been made, Moldova's investment climate remains challenging. Implementation in key areas has lagged. Corruption, barriers to entry and competition and government interference in business are still widespread and hinder economic development. Reform in the energy and municipal infrastructure sectors has advanced slowly. In the banking sector, two western banks have entered the market and the legal framework for banking supervision has improved. Several weaknesses nevertheless remain to be addressed, including non-transparent bank ownership, poor corporate governance and the lack of uniform application of "fit and proper" standards.

Following its earlier transition achievements, Moldova would benefit from deepening structural reforms to consolidate the conditions for long-term development. In particular Moldova will need to address the following transition challenges:

- *Establishing a level playing field and improving the business climate.* Moldova needs to reinforce the rule of law, reduce government interference in the economy and step up its fight against corruption. Strengthening the independence and institutional capacity of the judiciary, the regulatory authorities and the newly established competition agency should be a key government priority.
- *Supporting economic diversification in terms of sectors and markets.* Moldova's overwhelming dependence on agribusiness as well as excessive reliance on CIS markets (in particular Russia) increase the economy's vulnerability to adverse shocks and pose substantial risks to development. To achieve long-term sustainable growth, Moldova needs to decrease this dependence by expanding the productive base of its economy and diversifying its export markets including through capitalising on its newfound status as an EU neighbour.
- *Advancing energy and municipal sector reform.* Both sectors require further efforts to reinforce the independence of the regulator, promote transparency and ensure full cost-recovery-based tariffs with adequate support for the poorest consumers. State-owned utilities in both sectors should be substantially restructured and encouraged to operate on commercial principles. Energy efficiency remains a key challenge in light of the country's dependence on energy imports and associated rising costs. Adherence to the Energy Community Treaty (ECT) and the Union for the Co-ordination of Transmission of Electricity (UCTE) would improve energy security and provide additional momentum for reforms.
- *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 local economy, particularly the development of non-agricultural MSEs and SMEs in rural areas.

Moldova is currently preparing a National Development Plan (NDP) to succeed to the EGPRSP, which is due to expire by the end of 2007. The NDP together with the EU-Moldova Action Plan will provide Moldova and its development partners with a roadmap to meet the aforementioned challenges. The Bank will - within the limits of its mandate - assist Moldova to implement its reform programme by drawing among others on the instruments and grant financing available to the Bank in the context of its Early

Transition Countries (ETC) initiative. In particular, the Bank will pursue the following operational objectives:

- *Private Enterprise.* The Bank will continue to pursue investment opportunities in all enterprise sectors including, without limitation, the food processing, manufacturing, information and communication technology (ICT), retail and property sectors. Well performing companies will be provided with direct financing including through ETC instruments. The Bank will facilitate foreign investment either by investing alongside foreign strategic investors or by assisting the development of local companies which in due course may attract foreign investment. Working capital may be provided to agribusinesses under the recently established warehouse receipt system. The Bank will continue to provide non-financial support to private enterprises through its Turn Around Management (TAM) and Business Advisory Services (BAS) programmes.
- *Financial Institutions.* The Bank will provide its local partner banks with access to its SME and MSE credit lines, its Trade Facilitation Programme (TFP) as well as its Medium-sized Co-financing Facility (MCFF). The Bank will seek to extend its cooperation to new partner banks and will assist in the development and promotion of new financial instruments such as mortgage financing, leasing and energy efficiency credit lines. On the equity side, the Bank may consider further investment in banks, leasing companies and mortgage providers. The Bank will further enhance its support for the development of microfinance particularly (but not exclusively) in Moldova’s regions. The Bank will explore opportunities to support the emergence of the non-banking financial sector.
- *Infrastructure.* Given Moldova's sovereign debt capacity constraints and the IMF's concessionality requirements, the Bank will - to the extent possible - co-finance public infrastructure projects with other IFIs and donors to ensure maximum leverage of grant and concessional financing. To enable Moldova to take full advantage of its new EU neighbourhood status, the Bank will give priority to infrastructure projects that promote regional integration and interconnection with neighbouring countries. The Bank is also committed to resume its municipal infrastructure lending provided sufficient grant financing can be attracted to address affordability constraints. The Bank will continue to support private infrastructure investments.

The Bank will underpin the aforementioned operational objectives by an ongoing policy dialogue on investment climate issues 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 as well as ILO and national labour standards. 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
CDMA	Code Division Multiple Access, a process used for transmitting signals in digital mobile phone technology
CEFTA	Central European Free Trade Agreement
CIS	Commonwealth of Independent States
CPI	Corruption Perception Index
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
ECT	Energy Community Treaty
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
FMO	The Netherlands Development Finance Company
FSAP	Financial Sector Assessment Programme
GDP	Gross Domestic Product
GSP+	EU's Generalised System of Trade Preferences
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
Leu or MDL	Moldovan Leu, the currency of Moldova
MCA	Millennium Challenge Account
MCFF	Medium-sized Co-financing Facility
MIGA	Multilateral Investment Guarantee Agency
MSEs	Micro and Small-sized Enterprises
NAPC	National Agency for the Protection of Competition
NBM	National Bank of Moldova
NDP	Moldova's National Development Plan

OSCE	Organisation for Security and Co-operation
PRGF	IMF's concessional Poverty Reduction and Growth Facility
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
UCTE	Union for the Co-ordination of Transmission of Electricity
UNDP	United Nations Development Programme
USA	United States of America
USAID	United States Agency for International Development
USD or $	United States Dollars, the currency of the United States of America
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 2007 the Bank has signed 58 projects for a cumulative business volume of €224.8 million of which 75 per cent has been disbursed and €58.9 million are operating assets. The average project size (excluding sovereign projects) is €2.6 million, highlighting the relevance of the Early Transition Countries (ETC) initiative for Moldova.

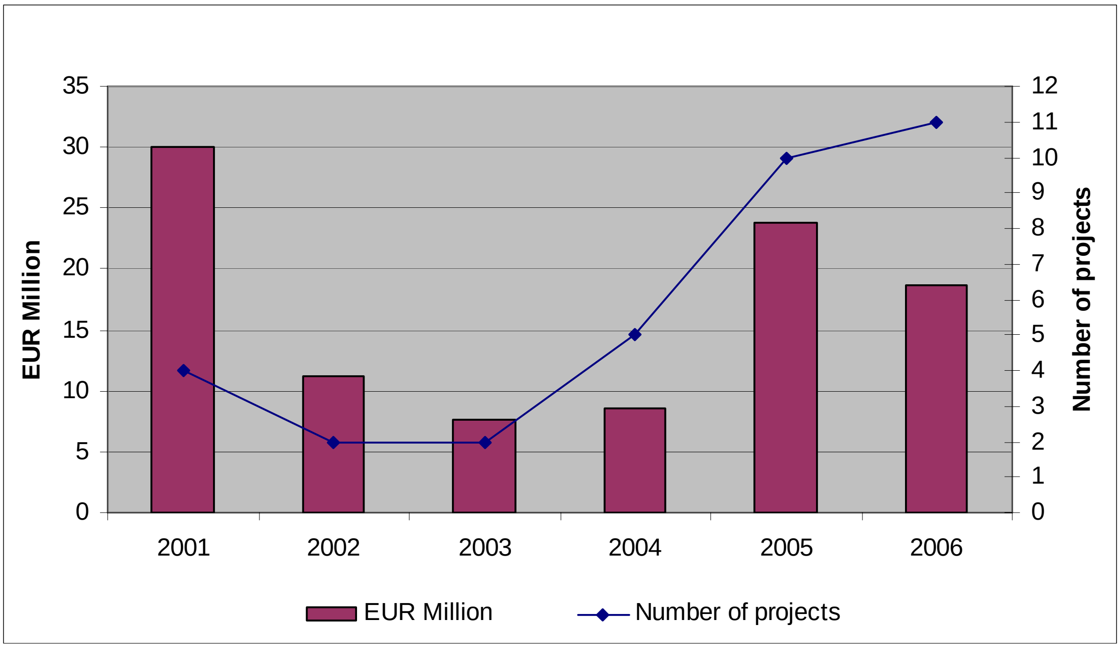
The infrastructure sector historically dominates the Bank's portfolio, representing 52 per cent of total assets. However Moldova's limited sovereign debt capacity and a flagging privatisation process have limited further infrastructure investments. Since November 2001, the Bank has mostly invested in the financial and enterprise sectors which represent respectively 32 per cent and 16 per cent of the Bank's portfolio. During the period covered by the previous country strategy, 23 new projects were signed for a total amount of €52.9 million.

Table 1: Commitments and Net Portfolio as of June 2007

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	**29**	**78.7**	**78.7**	**35%**	**54.3**	**18**	**28.5**	**32%**
Infrastructure	**13**	**243.9**	**94.5**	**42%**	**70.5**	**10**	**47.1**	**52%**
Energy	*3*	*60.9*	*28.0*	*12%*	*28.0*	*3*	*16.9*	*19%*
Water and Sewage	*1*	*29.0*	*15.6*	*7%*	*15.6*	*1*	*8.8*	*10%*
Transport	*5*	*146.3*	*44.2*	*20%*	*23.1*	*3*	*15.4*	*17%*
Telecommunications	*4*	*7.7*	*6.8*	*3%*	*3.8*	*3*	*6.0*	*7%*
Enterprise support	**16**	**85.4**	**51.5**	**23%**	**44.0**	**10**	**14.4**	**16%**
Agribusiness	*11*	*78.5*	*45.1*	*20%*	*41.8*	*5*	*8.2*	*9%*
General Industry	*1*	*0.7*	*0.4*	*0%*	*0.4*	*1*	*0.2*	*0%*
Financial Institutions Regional	*4*	*6.2*	*6.1*	*3%*	*1.8*	*4*	*6.0*	*7%*
Country Total	**58**	**407.9**	**224.8**	**100%**	**168.8**	**38**	**89.9**	**100%**

As is apparent from the graph below, the ETC initiative launched in 2004 has enabled the Bank to gradually increase its number of projects from an average of 2.5 projects per year, to 5 in 2004, 10 in 2005 and 11 in 2006. The average project size has decreased to approximately €2 million but the number of projects per year and annual business volume have increased. For a more detailed overview of the Bank's projects please refer to Annex 1.

Graph 1: Annual Business Volume and Transactions



1.2 Implementation of the Previous Country Strategy

The Bank's 2005 country strategy aimed to (i) support private enterprise, (ii) strengthen financial intermediation and (iii) develop infrastructure projects within Moldova's sovereign debt constraints.

The ETC initiative was a critical success factor in the implementation of the Bank's strategy with respect to **private enterprise**. The Bank invested a total of €10 million in 6 agribusiness projects, 5 of which were financed through ETC instruments.

The Bank provided non-financial support through its Turn Around Management (TAM) and Business Advisory Services (BAS) programmes. Both programmes have a strong regional focus with approximately 50 per cent of the projects undertaken outside Chisinau. BAS, financed through the ETC Multi-donor Fund, became operational in Moldova in autumn 2005. To date BAS has assisted 58 companies with an aggregate turnover in excess of €50 million and more than 4000 employees, in a wide variety of areas including general management, technology transfer and business expansion. TAM's operations in Moldova are supported by bilateral donors and the ETC Multi-donor Fund. Since 1997, 24 companies, primarily active in agribusiness, have benefited from TAM assistance.

In the **financial sector**, concerns regarding corporate governance, transparent bank ownership and the lack of uniform application of fit and proper standards to significant shareholders led the Bank to stop its cooperation with three of its five partner banks during the previous strategy period. Nevertheless the Bank remained the main provider of long-term financing to the Moldovan financial sector. Nine new projects were signed for a total amount of €18.2 million as detailed below.

The Bank signed a second medium-sized co-financing facility (MCFF) and provided two SME credit lines, one of which was syndicated to The Netherlands Development

Finance Company (FMO). The Bank signed a new Trade Facilitation Programme (TFP) and increased the overall amount of its TFP commitments from €7.7 to €16.6 million.

The Bank stepped up its microfinance operations. MSE credit lines were provided to two banks under a downscaling programme supported by technical assistance from the ETC Multi-donor Fund. The Bank also provided loan financing to three non-bank microfinance institutions.

Over the past strategy period private equity funds have demonstrated an increasing appetite for Moldova. The Bank invested in four regional funds which target, among others, Moldova. Furthermore, the Bank sold its equity stake in the largest private bank to a Slovenian investment fund. The remainder of the non-bank financial sector is still at an early stage of development and offers limited investment opportunities.

In addition to the microfinance programme mentioned above, the Bank provided significant technical assistance in the financial sector. With the financial support of Switzerland, the Bank provided the government with a detailed assessment of the Moldovan mortgage market and assisted it in drafting a modern mortgage law. The Bank also provided training to financial institutions in risk management and advanced credit appraisal, factoring and leasing.

Only one public **infrastructure** investment occurred during the past strategy period due to the government's limited sovereign debt capacity. In June 2007 the Bank signed a €30 million sovereign loan (€12.5 million of which has been committed) to co-finance a road rehabilitation and sector reform project with the WB and the EIB. The Bank supported a privately owned local telecommunications company with a €6 million investment, the Bank's first investment in the telecommunications sector in Moldova.

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

1.3.1 Quality of Portfolio

The current net portfolio stands at €89.9 million of which €58.9 million are operating assets. Compared to the previous strategy period operating assets decreased by 15.9 per cent due to the scheduled repayment of large infrastructure projects.

The overall portfolio risk rating is 7.1 - compared to 5.5 for the Bank as a whole - reflecting a vulnerable portfolio in a difficult environment. Impaired assets remained at 10 per cent of total operating assets. The portfolio performed satisfactorily with the exception of two sovereign guaranteed municipal projects (the Chisinau Energy Efficiency Project and the Chisinau Water Services Rehabilitation Project) which both involve technically bankrupt municipal companies. Both projects are repaying albeit with delays. Private sector operations continue to perform well although the Bank's equity investments require careful monitoring.

1.3.2 Mobilisation of Co-financing

Co-financing is at an early stage in Moldova. The Bank and other IFIs remain the main providers of long-term funds. To date the Bank has mobilised a total of €107.6 million in commercial co-financing from sponsors and co-financiers for a mobilisation ratio of 50 per cent. During the previous strategy period the Bank raised €7.3 million in co-financing from sponsors and €2.3 million from FMO in the first syndicated bank-to-bank loan in Moldova.[1]

1.3.3 Transition Impact and Lessons Learned

Transition Impact

Direct transition impact in the **enterprise sector** is growing following the launch of the ETC initiative in 2004 which facilitates the financing of small companies. The Bank's financing led to efficiency and productivity gains among others through the introduction of technological improvements in its investee companies. The Bank also enhanced local companies' management skills and competitiveness via its TAM and BAS programmes. Indirectly, the Bank's SME and MSE credit-lines enable local companies to upgrade their production facilities and expand their business. Furthermore, the Bank's MSE programmes have a strong regional component to support business and create employment opportunities in rural areas, thereby lessening urban and cross-border migration.

The Bank's transition impact in the **financial sector** was moderate. Through its SME and MSE credit-lines, the Bank improved risk management, credit appraisal and micro lending skills of its partner banks. It also supported the creation of an enabling environment for new financial products such as leasing and mortgage financing. These successes, however, were outweighed by growing concerns with respect to corporate governance, transparent bank ownership and the application of fit and proper standards to significant shareholders, which led the Bank to stop operations with three banks. Some improvements to the legal framework for banking supervision were introduced in 2006 but implementation remains insufficient.

In the **infrastructure sector** the Bank had a moderate transition impact. Substantial progress has been made with respect to the unbundling and privatisation of the energy sector through the purchase of three electricity distribution companies by a strategic investor. Significant energy efficiency improvements were also introduced following the privatisation. However, the sector remains inherently non-transparent and marked by political interference in the regulatory process. In the municipal sector, the authorities substantially increased water and district heating tariffs in Chisinau in January 2007. This was a longstanding prerequisite for further investments by the Bank in the sector. Although a full pass through of costs to consumers has not yet been achieved, the increased tariffs should put the municipal utilities on a stronger financial footing.

Lessons Learned

During the previous strategy period only one project - an equity investment in a local bank - was subject to independent evaluation by the Bank. The bank in question became the object of a hostile takeover when a group of local investors bought a stake in the bank and successfully took control from the existing shareholders. The Bank's experience demonstrated two fundamental issues. It underscored (once more) the importance of a strong shareholders' agreement with pre-emption rights to maintain shareholder stability and corporate governance, even when the original investors appear to be likeminded institutions with similar objectives at the outset. It also highlighted the

[1] Please note that this does not include the financing provided by the WB ($16 million) and the EIB (€30 million) in connection with the recently signed road rehabilitation project.

need for the Bank to have some control over the disposals made by other investors and particularly the need to ensure that potential purchasers meet fit and proper standards.

Other lessons drawn from the Bank's experience in Moldova indicate that 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 can only be achieved when there is a clear political commitment. 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 in private sector projects increased from 58 per cent to 64 per cent of the Bank's portfolio, reflecting the limited investment opportunities in public infrastructure during the period. This trend may reverse slightly as the Bank increases its sovereign lending operations in Moldova after a pause of more than seven years.

2. Operational Environment

2.1 The General Reform Environment

2.1.1 Political Developments

National elections in March 2005 and local elections in June 2007 generally conformed to international standards for democratic elections according to the Organisation for Security and Co-operation in Europe (OSCE). However, they fell short in some areas that are central to a genuinely competitive election process, such as media balance and access. Freedom of the media is far from being assured. This raises concerns about the government's commitment to full liberalisation and democratisation of the political sphere.

The Communist Party of Moldova (CPM) adopted a pro-European orientation in 2004, which helped the party to retain its parliamentary majority in the 2005 elections. This change in foreign policy orientation entailed commitments to an economic and political reform agenda manifested by the adoption of the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) in May 2004, the EU-Moldova Action Plan in February 2005 and a three-year programme with the IMF under its Poverty Reduction and Growth Facility (PRGF) in May 2006. These commitments have resulted in a broad range of legislative reform initiatives, most of which have been crafted with the participation of international organisations and bilateral donors. However, in many key areas implementation of these reforms has been weak. In December 2006 Moldova and the United States signed a $24.7 million Millennium Challenge Corporation (MCC) Threshold Programme Agreement aimed at reducing government corruption. It is hoped that this programme will cut rent-seeking opportunities for authorities, thus reducing Moldova’s high level of corruption and paving the way for a much larger MCC Compact Programme.

Negotiations over the breakaway region of Transnistria have been stalled since early 2006. A referendum on Transnistrian independence in September 2006 as well as “presidential” elections in the breakaway region which returned the incumbent, Igor Smirnov, have further undermined attempts to seek a negotiated settlement to the frozen conflict. The entrenchment of negotiating stances on both banks of the Nistru River provide little prospect for a major breakthrough in the near term. For a more detailed political assessment please refer to Annex 2.

2.1.2 Social and Labour Conditions

Moldova ranks 114th out of 177 countries on UNDP's Human Development Index, a composite measure of life expectancy, education and standard of living. In terms of UNDP's Gender Empowerment Measurement - which measures gender inequality in economic and political decision-making - Moldova ranks 46th out of 75 countries.

The erosion of education, health and other public services disproportionately affected Moldova's rural areas. The poverty rate in rural areas increased by 6.8 percentage points since 2003. Insufficient competition, state interference and an under-developed market infrastructure have reduced farm-gate prices and farmers' incomes. Continued economic hardship has caused more than 25 per cent of the active population to leave the country in search of better opportunities abroad. A significant portion of these migrants are skilled workers. As a consequence of migration one in nine children in the country grows up without at least one parent.

People trafficking remains a problem. Moldova is a major source of trafficked persons and, to a lesser extent, acts as a transit point for trafficking victims from Ukraine. Women and children are trafficked for sexual exploitation. Men and children are trafficked for forced labour and begging mainly to Russia and neighbouring countries. According to the International Organization for Migration (IOM), 12 per cent of the trafficking victims it assisted were minors.

Ukrainians and Russians are the two largest minorities. The Gagauz, a Christian Turkic minority, make up a small percentage of the population and live primarily in Gagauzia in the south of the country. Official statistics put the number of Roma at 11,600, a figure which Roma NGOs believe is too low. NGOs did not report arbitrary arrests of Roma in 2006, a marked improvement compared to previous years. Nevertheless, the European Roma Rights Centre continues to report discrimination against Roma with regard to housing, education and access to public services.

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)). The ILO, in cooperation with the government, has implemented aspects of its international programme to eliminate child labour but violations still occur.

2.1.3 Legal Reform

Over the years, Moldova has carried out extensive reforms of its legal framework and has managed to put in place a comprehensive legislative base for the transition to a market economy. However, an analysis of key commercial laws that directly contribute to creating a favourable investment climate in Moldova shows that even relatively good laws suffer from serious implementation problems. A weak judiciary, widespread corruption and complex enforcement procedures undermine investors' confidence. The commitments undertaken by Moldova in connection with the EU-Moldova Action Plan and the MCC Threshold Programme Agreement should lead to further improvements in these areas and contribute to a more attractive investment climate. For the Bank's assessment of selected commercial laws please refer to Annex 3.

2.1.4 Environmental Issues

According to the 2005 Environmental Performance Review Report by the United Nations Economic Council for Europe (UNECE) some environmental quality improvements have been achieved. Nevertheless, according to Moldova's EGPRSP and the 2004 State of Environment Report, pollution of surface and underground water, urban air pollution, soil contamination and erosion, deforestation, biodiversity loss, waste management (including management of obsolete pesticides and toxic waste) and the reduction of trans-boundary effects still remain key environmental concerns. The EGPRSP identifies the conservation of natural resources on which the population relies for their livelihood – in particular air and water quality improvement – as a critical policy issue.

Moldova's environmental degradation is serious and transcends pure environmental concerns. The deterioration of environmental infrastructure and the pressures associated with renewed economic growth have an adverse effect on human health, poverty, economic growth and the protection of natural heritage.

Environment does not receive the priority it deserves in the national decision-making process. There is 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) and the Protocol on Strategic Environmental Assessment to the Espoo 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 bio diversity). The 2004 State of Environment Report also recommends strengthening the capacity of the environmental agencies to enable them to carry out their duties and respond adequately to environmental priorities. 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 macroeconomic performance has improved over the past six years. Between 2000 and 2005 the economy grew at an average rate of 7 per cent. In 2006, however, Russia's ban on Moldovan wine imports and Gazprom's doubling of gas prices slashed economic growth to just 4 per cent. In parallel industrial output declined by 6.9 per cent. Wine output reached only half of its 2005 level. Over-reliance on the Russian market for exports of agricultural products (including wine) and high dependence on energy imports underscore the risks to Moldova's current growth model. Large scale labour migration has provided some benefits to the economy in the form of significant inflows of remittances. While this has to a certain extent cushioned the impact of the twin external shocks, sustainable economic development in the medium term will require expansion of Moldova's productive base and the conquest of new export markets. Sustained labour migration conversely risks sapping the domestic labour supply required to support economic growth.

Over the past strategy period the monetary policy was guided by the broadly defined 'currency stability' policy objective. The pursuit of often conflicting goals has had mixed effects, as inflationary pressures strengthened and real interest rates became negative in the early part of 2006. Moreover, imported energy price increases and adjustments of administrative prices have also fuelled inflation. A policy tightening in late 2006 has started to impact inflation, which is declining. Furthermore, amendments to the National Bank Law adopted by parliament in July 2006 shifted the primary policy objective of the National Bank of Moldova (NBM) to price stability and the NBM's capital position was strengthened by linking it to the size of its monetary liabilities. The Leu depreciated against the US Dollar from 12.60 to 13.13 MDL/$ in 2005 and 2006 respectively.

Moldova pursued a prudent fiscal policy in light of the twin external shocks. The country recorded a budget surplus of 1.6 per cent of GDP in 2005 and only a modest deficit of 0.3 per cent of GDP in 2006 due to better than anticipated revenue performance and prudent spending. Because of the weak supply response in the economy much of the remittance-financed consumption attracted imports increasing indirect tax revenues (mainly VAT and excise duties). Moderate social spending and low public investment have kept expenditure in check. For 2007 the government plans to continue its tight fiscal policy with a projected deficit of slightly above 0.5 per cent of GDP for the consolidated budget in line with the IMF programme commitments. The Medium Term Expenditure Framework provides for similar deficit targets in 2008 and 2009.

A strong surge in imports fuelled by remittances, higher energy prices and barriers to Moldovan exports pushed the trade deficit to 40 per cent of GDP in 2005 and 47 per cent in 2006, substantially higher than the average 25 per cent earlier in the decade. The flow of remittances transferred by Moldovan citizens working abroad continues to increase. Estimated at $1.17 billion in 2006 (close to 35 per cent of GDP), remittances have been the single largest engine for economic growth in the past few years and continue to provide extensive current account support. Nevertheless, the current account deficit still increased to 11.9 per cent of GDP in 2006 from 4.4 per cent in 2004.

Moldova is a member of the WTO and has a liberal trade policy. The country signed free trade agreements with all CIS countries which guarantee it (in principle) free access to their markets. In practice, informal and non-tariff barriers (such as labelling, phytosanitary and quality standards) are common and present risks to macroeconomic stability. Moldova's trade relations with Romania and Bulgaria are no longer governed by the Central European Free Trade Agreement (CEFTA) following the accession of these countries to the EU in January 2007. Instead they are governed by GSP+ as was already the case for Moldova's trade relations with other EU member states. GSP+ provides free access to EU markets for some 7,200 types of goods. It does not cover certain sensitive agricultural products such as wine (unlike CEFTA) and requires compliance with stringent rules of origin and quality certification. Moldova has applied for an Autonomous Trade Preferences regime with the EU, which would provide it with asymmetric access to EU markets. Although in the medium to long term Moldova will undoubtedly be able to leverage its proximity to the EU, the loss of free access to former CEFTA markets in Romania and Bulgaria may generate some adverse effects in the short run, particularly for agricultural goods.

Limited access to international capital markets, a more prudent borrowing policy over the past few years and a new IMF programme followed by a Paris Club debt rescheduling in 2006 have considerably reduced the external debt servicing burden. External debt stock increased in 2006 by $400 million to $2.5 billion (74 per cent of GDP). A quarter of this is public or publicly guaranteed debt, the remainder is private debt which has steadily increased over the past decade. For selected economic indicators please also refer to Annex 5.

2.2.2 Transition Successes and Challenges

Progress in Transition

As mentioned in Section 2.1.1, Moldova embarked on an ambitious reform programme in line with its commitments under the EGPRSP, the EU-Moldova Action Plan, the IMF PRGF programme and the MCC Threshold Programme Agreement. Pursuant to these programmes Moldova undertook to implement wide-ranging structural reforms in, among others, public administration and finance, rule of law and investment climate. Although the government has undertaken a wide range of legislative initiatives, implementation has been sometimes slow due to a lack of genuine political commitment as well as capacity constraints and insufficient financial resources.

The investment climate continued to improve over the previous strategy period but **private enterprises** in Moldova still operate under less favourable conditions than their peers in neighbouring countries. The first phase of the "Guillotine Law" adopted in February 2005 has been completed. Although some cases of non-compliance were recorded, the process significantly reduced the number of licenses required for business activities and introduced one-stop-shops for the registration of new businesses. The second phase - which will be implemented over the next two years - will review the laws that impact business and install a regulatory impact assessment process.

In April 2007 parliament adopted the Law on Economic Liberalisation initiated by president Voronin. Pursuant to the law reinvested profits are exempt of corporate tax whereas profits paid out as dividends continue to be taxed at 15 per cent. The law also introduces a capital amnesty effective until the end of 2008 which enables Moldovans to declare the true value of their investments for a nominal five per cent tax on the capital value registered. As tax rates are generally low in Moldova, the Law on Economic Liberalisation will only be successful in attracting more investments if accompanied by more general improvements in the business environment and further relaxation of the administrative burdens on enterprises.

Despite improvements, government interference in the economy remains high and corruption continues to be a serious problem. In accordance with the EU-Moldova Action Plan, the authorities initiated a reform of the judiciary process. Progress to date, however, has been modest. Court procedures are perceived as non-transparent. More should be done to ensure the independence and professionalism of the judiciary. The government also established a National Agency for the Protection of Competition (NAPC) in February 2007. The NAPC is set up as an independent body which reports to parliament once a year. Its budget, however, depends on the government. An independent and forceful NAPC is crucial to strengthening market infrastructure and establishing a level playing field for all economic agents.

Privatisation progressed slowly over the past two years. Two land plots in Chisinau, a tourism complex and 25 smaller enterprises were sold through the stock exchange. Revenues raised were modest but investment commitments are expected to generate some benefits in the medium term. The privatisation of more important assets in the agribusiness, power and telecoms sectors was postponed. The authorities are elaborating a new approach to privatising and managing state-owned enterprises. It aims to expedite the privatisation process, introduce corporate governance principles and increase financial transparency in state-owned enterprises. In parallel the authorities are exploring public-private partnership structures in public infrastructure projects. A draft Law on Public Private Partnerships is currently being considered by parliament.

In the **financial sector**, amendments to the Law on Financial Institutions adopted in November 2005 improved the framework for banking supervision. The NBM fit and proper approval threshold for new shareholders was lowered from 10 to 5 per cent and restrictions were introduced to limit the use of offshore vehicles in the ownership structures of banks. In parallel, the independence of NBM board members was bolstered by amendments to the National Bank Law in July 2006. The government indicated its intention to amend the Constitution to include an explicit reference to the independence of the NBM at the earliest opportunity. The revised legislation, if applied diligently, should improve the ability of the NBM to increase transparency in bank ownership and enforce fit and proper standards. The NBM should be commended for its role in maintaining financial sector stability during the wine crisis.

Last year saw the arrival of reputable foreign banks in Moldova. Société Générale and Banca de Veneto both acquired mid-sized Moldovan banks. Banca Commerciala Romana, a subsidiary of Erste Bank, has a branch in Moldova. Raiffeisen Bank has opened a representative office with a view to establish a full presence in the near future. These banks are starting to modernise banking practices. Progress was also made with respect to the privatisation of the last state-owned bank, a condition under the IMF programme. The government launched an international tender to value the bank in 2007 and requested IFC's assistance to prepare the bank for privatisation. Nevertheless the authorities acknowledge that greater transparency in bank ownership and vigorous application of fit and proper standards are essential to further financial sector development. The authorities have requested a Financial Sector Assessment Programme (FSAP) Update to examine these issues in more detail. A joint IMF and WB FSAP Update mission is scheduled for the second half of 2007.

The non-banking financial sector remains embryonic. A more robust regulatory environment is needed to boost sector development. The authorities propose to establish a mega-regulator to supervise all non-bank financial institutions. Current supervision is inadequate mainly because the supervisory bodies cannot revoke licenses of non-compliant firms. It is hoped that the new mega-regulator will address this and other weaknesses.

Some progress has been achieved in the **infrastructure sector** although weaknesses persist particularly with respect to the independence of regulators.

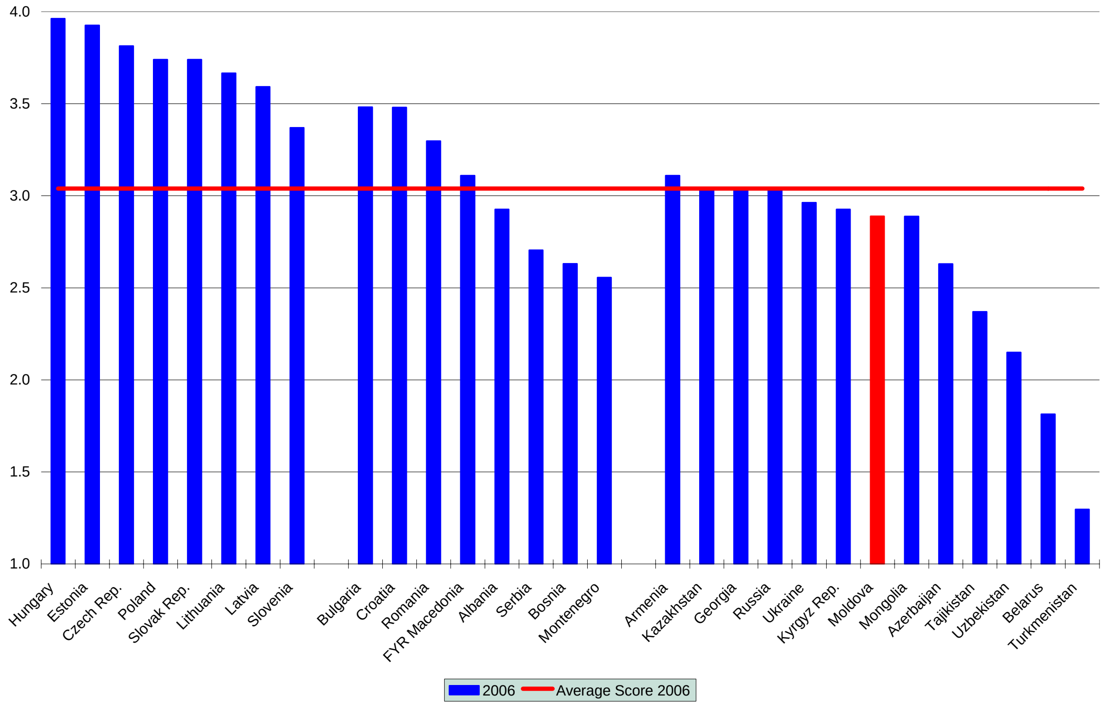
In the ***energy sector*** adherence to the Energy Community Treaty (ECT) and the Union for the Co-ordination of Transmission of Electricity (UCTE) has become a government priority. The government performed an audit of Moldova's energy laws to ensure compliance with ECT norms and updated its energy strategy. As part of its strategy Moldova intends to establish interregional connections to increase energy security and stability of supplies and promote energy efficiency and the use of renewables. Uncertainties with respect to the resolution of the Transnistrian conflict and its impact on Moldova's relationship with MGRES - a 2500 megawatt power plant located in the breakaway territory and controlled by RAO UES - complicate the elaboration of a long-term strategy with respect to electricity. Moldova's state-owned distribution companies (two) and generation plants (three) are in a dire state. Urgent investments are needed to restructure these companies and improve technical efficiency. This in turn calls for a more transparent cost-recovery-based tariff methodology which ensures investors an adequate return on their investments. The National Energy Regulatory Agency (ANRE) has strengthened its technical capacity but tariff regulation remains politicised. While, for instance, recent price increases in gas were passed on to the final consumer, electricity price increases were hitherto not.

Challenges also remain in the ***municipal infrastructure sector***. Municipal utilities in Chisinau have long suffered from the municipal council's inability to promote a tariff reform which would ensure financial sustainability. The stalemate was partly broken when the tariff setting authority was split between ANRE which sets the tariff methodology and the municipal council which has to adopt the tariff in accordance with it. This facilitated the increase of water and district heating tariffs in January 2007. In absolute terms, however, tariffs remain insufficient to meet long-term investment requirements. Pursuant to the PRGF, Moldova is required to gradually increase tariffs to full cost recovery levels. Affordability concerns should be addressed through targeted support for the poorest consumers. In the urban transport sector, a mixed record on regulation has led to less than desirable competition and inefficiency.

Following the liberalisation of the ***telecoms sector*** in 2004, 16 alternative fixed-line operators have emerged, mainly in Chisinau. The state owned Moldtelecom remains, however, the dominant provider of fixed-line telephony. Insufficient progress with respect to tariff rebalancing and enforcement of interconnection and termination rules is a barrier to further sector liberalisation. The independence and jurisdiction of the National Regulatory Agency for Telecommunications and Information Technologies (ANRTI) remain to be addressed. Among others ANRTI lacks the legal and administrative tools to assign and enforce obligations on companies with significant market power in the sector. The government's continuing failure to appoint the necessary members to ANRTI's board further prevents ANRTI from performing many of its core functions in these and other areas. A draft Law on Telecommunications - currently under discussion in parliament and designed to bring the legal and regulatory electronic communications framework in line with applicable EU directives - falls short in a number of key areas including the independence and powers of ANRTI. In 2006 the authorities awarded a CDMA license to Moldtelecom and a third GSM license to a local company.

The graph below contrasts Moldova's progress in transition to that of other countries. Several CIS countries are less advanced than Moldova in market reforms, but Central European, Baltic and Southeast European states are generally more advanced. As is apparent from the graph, further reforms are required to achieve the standards of advanced market economies (score of 4).

Graph 2: Average Transition Indicators for Moldova and Other Transition Countries



Source: EBRD Transition Report 2006

Transition Challenges

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

Establishing a level playing field and improving the business climate – Long-term improvements in economic performance require a level playing field for all market participants to stimulate investment and promote productivity. In order to achieve this Moldova will need to reinforce the rule of law, reduce government interference in the economy and step up its fight against corruption. Strengthening the independence and institutional capacity of the judiciary, the regulatory authorities and the newly established competition agency should be a key government priority which would yield long-term benefits for the entire economy.

Economic diversification in terms of sectors and markets – The economy's overwhelming dependence on agribusiness as well as its excessive reliance on CIS markets (in particular Russia) for exports increase Moldova's vulnerability to adverse shocks and pose substantial risks to development. This became painfully apparent last year when Russia banned Moldovan wine imports on phytosanitary grounds (on top of earlier import bans for meat and fresh fruits and vegetables). Furthermore, Moldova's agricultural sector is marked by low productivity and low value added output. Gross value added per employee in agriculture is less than 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. To achieve sustainable long-term growth, government strategies rightly promote expanding into sectors with higher value added to decrease the economy's dependency on the agricultural sector and diversifying Moldova's export markets by capitalising on its newfound status as an EU neighbour.

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). 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 obsolete and inefficient equipment, high levels of energy losses, energy tariffs which do not reflect the cost of service, inefficient management and recurring problems with tariff collection. Given Moldova's energy dependence, the promotion of energy efficiency measures and renewables has become a key government priority. In the power sector, further regulatory reform will be required to promote fair competition, reinforce the independence of the regulator and ensure full cost-recovery-based tariffs. The remaining state-owned generation assets and distribution companies require considerable investment for their refurbishment. 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.

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 and less than half of total investment, account for less than 40 per cent of exports and have wage levels half those in the capital. Emigration is widespread due to scarce employment opportunities in the regions. Local budgets are primarily used to finance current expenditures and are rarely sufficient for investment and development. While Chisinau is expected to remain the primary engine of growth, a regionally balanced economic development should be a medium-term priority for the authorities. This will require increased investments in regional infrastructure and adequate support for the emergence of MSEs and SMEs in rural areas and small towns.

These challenges are consistent with the priorities identified by the authorities in the EGPRSP. The authorities are currently preparing a National Development Plan (NDP) which will succeed to the EGPRSP which is due to expire by the end of 2007. The NDP together with the EU-Moldova Action Plan will provide Moldova and its development partners with a roadmap to meet the aforementioned challenges.

2.3 Access to Capital and Investment Requirements

Moldova has substantial investment and rehabilitation needs both in the public and in the private sector. Access to capital, however, is limited.

The ability of the sovereign to assume further liabilities, although improved compared to 2004, remains limited. The government's commitment to borrow on concessional terms will translate into substantial grant co-financing requirements. At the Consultative Group meeting held in Brussels in December 2006, donors indicated their willingness to provide up to $1.2 billion in grants over the next three years. This grant financing is conditional on progress in implementing the reforms stipulated in the EGPRSP and the EU-Moldova Action Plan.

The level and quality of foreign direct investment (FDI) flows are growing but remain below Moldova's long-term needs. Net FDI flows increased to $223 million in 2006, the highest level ever recorded. Cumulative FDI since independence, however, is only $1.28 billion, far below the country's needs. FDI is dwarfed by remittances. Estimated at $1.17 billion in 2006, remittances have a substantial impact on Moldova's economy. To date they have largely fuelled consumption and attracted imports, widening the trade deficit and generating additional inflationary pressures in the process. If channelled through the financial sector, they could strengthen the country's financial system and partly meet its needs for investment finance.

Local commercial banks have considerably increased their lending activities since the last strategy period. The expansion of lending was particularly rapid after 2000 and credit to the private sector grew in nominal terms by 30 per cent in 2005 and 38 per cent in 2006, increasing the stock of credit to the private sector to 28 per cent of GDP at the end of 2006. 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 tenors which limit their ability to embark on long-term investment programmes and the high real interest rates which often make loan financing prohibitively expensive.

Domestic capital markets are embryonic and, at this stage, not capable of providing capital to domestic enterprises. Access to international capital markets is limited due to the small size (by international standards) of most firms and the unfavourable risk profile of the economy.

3. Strategic Orientations

3.1 Bank's Priorities for the Strategy Period

The Bank will continue to support Moldova in its efforts to implement its ambitious reform programme and improve its investment climate. The Bank's operational priorities will cover the general development of the private sector, restructuring and consolidation in the financial sector (with a special emphasis on transparency and good corporate governance) and the rehabilitation of the country's infrastructure. The latter will require substantial grant co-financing to address IMF concessionality requirements and general affordability constraints. To ensure maximum leverage of grant and concessional financing the Bank will endeavour to co-finance public infrastructure projects with other IFIs and donors such as the EU through its proposed Neighbourhood Investment Fund (NIF) and the United States through its MCC Compact Programme.

The ETC initiative and the approximately €2 million grant financing provided through the ETC Multi-donor fund played a crucial role in the implementation of the Bank's previous strategy. This role is likely to be undiminished going forward. 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.

The Bank will ensure that all operations in Moldova comply with the Bank's Environmental Policies and Procedures as well as ILO and national labour standards. Efforts will be made to assist clients in achieving compliance.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Private Enterprise

3.2.1.1 Background

Agriculture and agro-processing industry is the largest sector of the economy. It generates more than 20 per cent of the country's GDP, employs over 50 per cent of the active population and accounts for more than 44 per cent per cent of exports. Agro-processing - including fruit and vegetable processing, wine production and vegetable oil production - registered stable growth of approximately 10 per cent annually for the last three years to 2006. The wine ban introduced by Russia citing phytosanitary grounds, however, is likely to have long-lasting adverse effects. Russia accounted for up to 90 per cent of Moldova's wine exports, approximately 10 per cent of GDP. Even if wine exports resume in the near future, Moldovan wine producers are unlikely to completely recapture lost market share. Conquering new (particularly European) export markets is an improbable prospect in the short-term for most wineries given consumer tastes and intense competition.

Land and collective farm privatisation is complete. It resulted in a 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 a prohibition for foreigners (including indirectly through a local company) to own agricultural land 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 17.3 per cent of GDP and employs 10 per cent of the labour force. 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 and Balti. Existing local supermarket chains have expanded, while international brands 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.

3.2.1.2 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.

3.2.1.3 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, DLF and DIF.
- In the agribusiness sector the Bank will continue to support local and foreign strategic investors to create successful, local food and drinks processing companies with the capacity to sustain long-term investment programmes. The Bank will actively support the restructuring of the local wine sector by supporting quality wine producers and facilitating the entrance of strategic investors. Given the importance of modern retail formats for the Moldovan primary agriculture as well as for food processing, the Bank will seek to provide long-term financing to local players and strategic investors in this sector. In the grain sector, the Bank will seek to support local and foreign investors in their efforts to improve grain-related infrastructure and in particular grain terminals and storage facilities.
- In the property sector, the Bank will look for opportunities to support offices, logistics and retail infrastructure projects as well as residential development.
- 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 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. Both programmes will continue to have a strong regional focus to support the regional development of Moldova's economy. When appropriate the Bank will cross-refer its investee companies to TAM and BAS for non-financial support and vice versa.

3.2.2 Financial Institutions

3.2.2.1 Background

The **banking sector** comprises 15 banks with the five largest banks accounting for over 65 per cent of total banking assets. During the previous strategy period, the sector experienced strong growth. During 2006 banking sector assets increased by almost 26.5 per cent in MDL terms, loans increased by 38 per cent and total deposits grew by 25.5 per cent. The product range offered by leading banks has been diversified. Banks now issue and service debit cards and offer quick money transfers, on-line banking and incipient housing finance. Please also refer to sections 1.2, 1.3.3 and 2.2.2 for an overview of the Bank's experience and the country's transition progress in the sector to date.

Microfinance is a key component of economic growth in ETC countries. It provides access to finance to the smallest of entrepreneurs enabling them to grow their business into MSEs and at a later stage SMEs. In Moldova microfinance is particularly important. In manufacturing small businesses accounted for 22 per cent of total sales in 2006 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 2006 and 94 per cent of all trading companies. Micro-finance institutions play an important role by financing 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 the volume of transactions remains small and mostly confined to car leasing. There are approximately 32 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.

3.2.2.2 Transition Objectives

The Bank’s transition objectives in the financial sector will be to further strengthen 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. The Bank will continue to promote good corporate governance and transparency in its partner institutions.

3.2.2.3 Operational Priorities

In support of these 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 and participation in the Bank’s TFP and MCFF programmes. 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 energy efficiency credit lines, leasing and mortgage financing. On the equity side, the Bank may consider further investments in banks, 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 **microfinance** including 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 microfinance programmes may include a regional component to ensure appropriate availability of microfinance outside the capital.
- The Bank will explore opportunities to support the development of the **non-banking financial sector** through investment and technical assistance from among others the ETC Multi-donor Fund.

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 2.2.2 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 two decades natural gas has replaced coal as the main fuel. It now constitutes 70 per cent of total primary energy supplies. Although imports from Romania are technically feasible, Russia supplies 100 per cent of the gas consumed in Moldova. This dependency became painfully apparent when Gazprom cut off gas supplies for 16 days in January 2006 after Moldova rejected a price increase. After arduous negotiations, the parties signed a five year gas supply agreement in December 2006. The agreement - which Gazprom presents as a model for other ex-soviet countries - more than doubled 2005 gas prices to $170 per thousand cubic meters for 2007 with a subsequent gradual increase by 2011 to the average European price (less the transport cost differential).

While painful in the short run, the trend towards European energy price levels provides greater impetus to improve energy efficiency and develop renewable energy projects. Although Moldova will likely remain dependent on Russian gas for much of its primary energy supply, higher prices will also incite Moldova to strengthen its security of energy by deepening Moldova's integration in regional energy markets (among others by leveraging its role as a transit country).

In the ***power sector***, further regulatory reform will be required to promote competition and ensure transparency, reinforce the independence of the regulator and ensure full cost-recovery-based tariffs with targeted subsidies to address affordability issues. The remaining state-owned generation assets and distribution companies urgently need investment. Although previous privatisation attempts failed to attract investors, a renewed attempt may generate more interest due to Moldova's proximity to the EU and its applications to join ECT and UCTE. Moldova's size and limited generation capacity makes regional interconnection a key priority. The EU-Moldova Action Plan, ECT and UCTE provide Moldova with a framework to achieve these objectives.

Moldova's dependence on imported energy and rising energy prices provide a strong incentive for ***energy efficiency*** measures and the use of ***renewables***. Moldova's energy intensity is three times the equivalent figure for Western Europe. Energy efficiency measures could induce substantial cost savings in the electricity and heat generation and distribution sectors, the residential sector and the food processing and construction industries. There is also good potential for renewable energy sources (especially biomass and wind power).

Potential energy savings and investments in the renewable energy sector remain, nevertheless, unexploited. The financial sector currently lacks capacity to finance energy efficiency or renewable energy projects. The district heating sector (where investments could generate significant energy efficiency gains) suffers from inadequate regulatory and tariff structures as well as insolvency issues. The ability to successfully develop sustainable energy projects will depend to a large extent on improvements in the operational environment including a more attractive regulatory framework and a stronger energy conservation agency.

Transport is an essential component of sustainable growth. With the exception of a short stretch of shore on the river Danube in the southernmost tip of the country, Moldova is essentially a landlocked country enclosed by Romania and Ukraine. Its economy is highly dependent on trade and therefore on good transport infrastructure.

With Romania's accession to the EU, Moldova could become an important gateway between the EU and CIS countries. Moldova's existing free trade agreements with its traditional CIS markets combined with better access to EU markets should make it more attractive for foreign direct investment. It would also increase the importance of its transport networks, particularly the Pan-European Corridor IX - which crosses Moldova from east to west, linking Romania with Ukraine and Russia - and its north-south road axis.

Moldova's transport infrastructure (particularly its road and rail networks), however, has suffered from years of under-investment and has significantly deteriorated. Substantial investment in transport infrastructure is urgently needed if Moldova is to prevent further deterioration and take advantage of its potentially favourable location.

Although water and district heating tariffs were raised in January 2007 (see section 2.2.2), 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. 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 the central and local authorities of Moldova to create a favourable environment.

An efficient **information and communication technology (ICT) infrastructure** can substantially enhance economic growth. The telecoms sector was formally liberalised in line with the requirements of the WTO "Reference Paper" on telecommunications. To date 42 fixed-line telephony licenses have been issued and 16 private service providers have started operations. However, the state-owned Moldtelecom is expected to remain 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. Orange and Moldcell, the two providers, have approximately 870,000 and 490,000 customers respectively. In 2006 the government awarded a CDMA license to Moldtelecom and a third GSM license to a local company.

Internet service provision is the fastest growing ICT segment in Moldova. Internet connections doubled to 459,000 in 2006 from 223,000 in 2005. Broadband internet connection represents approximately 5% of total connections. Competition is limited with four service providers covering most of the high-speed internet market. Smaller providers tend to focus on niche markets and are losing market share to larger and more cost efficient providers.

The ICT sector is at a critical juncture in Moldova. While the sector has been formally liberalised since 2004, meaningful competition to dominant operators (particularly incumbent Moldtelecom) has yet to emerge. Key to the emergence of competition is an appropriate legal and regulatory framework consistent with EU requirements. While some modern regulatory provisions are present in Moldovan legislation, a combination of immature sector institutions coupled with failure of the authorities to follow through on implementation has deprived these provisions of their effectiveness. As a result the sector remains underdeveloped with levels of infrastructure availability and access below most peer central European nations. Going forward, the strengthening of sector institutions (both policymaking and regulatory), revision of the legal and regulatory framework to reflect modern (EU-consistent), transparent and predictable regulation, followed by swift and consistent implementation will be critical to the development of the sector.

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, improve transparency and efficiency of management and operations through capacity building and the introduction of commercially-based information systems and procedures, ensure financial sustainability and promote efficient use of resources, support the regional development of all infrastructure sectors with a particular focus on interconnection with neighbouring countries, support private investors, encourage competition and greater involvement of the private sector through the introduction of competitive tendering for contracts and generally improve standards of integrity, transparency and corporate governance in all sectors.

3.2.3.3 Operational Priorities

Given the limited sovereign debt capacity, the IMF's concessionality requirements and the weak regulatory environment, investment opportunities for the Bank in the infrastructure sector over the next strategy period are expected to remain scarce and challenging. To enable Moldova to take full advantage of its new EU neighbourhood status, the Bank will give priority to infrastructure projects that promote regional integration and interconnection with neighbouring countries. In this context the Bank will pursue, in close consultation with its partners, the following operational priorities:

- In general, the Bank will endeavour to co-finance **public infrastructure projects** with other IFIs and donors to ensure maximum leverage of grant and concessional financing. The Bank will also examine opportunities to structure creditworthy public infrastructure projects on a non-sovereign basis. The Bank will facilitate **private sector investment** in all infrastructure sectors by providing loan or equity financing to suitable strategic investors, provided that in the case of public-private partnerships the private sector investor was selected pursuant to a transparent procurement process.

- In the **energy sector**, the Bank - in consultation with the European Commission and other IFIs - will support national and regional initiatives in line with Moldova's revised energy strategy. In the ***power sector***, for instance, the Bank has had some preliminary discussions regarding an electricity transmission link between Moldova, Romania and Ukraine. To the extent possible, the Bank will also support the rehabilitation of Moldova's domestic transmission network. The Bank will actively seek opportunities to participate alongside suitable strategic investors in the privatisation of key generation or distribution assets. In association with these projects, the Bank may provide technical assistance to analyse the affordability implications of full cost-recovery-based tariffs and identify appropriate mitigating measures. As regards ***energy efficiency***, the Bank will endeavour to identify energy-saving measures in its projects through the Sustainable Energy Programme (SEP).[2] 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. Although practical implementation possibilities of ***renewable energy*** projects remain weak due to limited regulatory support, the Bank will seek to support creditworthy renewable energy projects, including smaller ones. The Bank might also consider sourcing donor funding for international experts to assist Moldova in drawing up its regulatory framework for renewable energy, if deemed appropriate.

- In the **transport sector**, the Bank, in cooperation with the EIB, is considering a non-sovereign project to support further upgrading of Chisinau Airport. The Bank may identify other opportunities based on the government's long-term transport strategy which is currently under preparation.

- The Bank has emphasized its commitment to smaller **municipal infrastructure** projects under its ETC initiative. The Bank would be willing to consider projects in

[2] 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.

Chisinau as well as in the regions subject to attracting grant financing to meet the IMF's concessionality requirements and address affordability constraints.

- In the **ICT 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 telecoms sector. The Bank's participation will, however, be subject to transparent privatisation processes and the existence of a satisfactory regulatory framework.

4. Other IFIs, Multilateral and Bilateral Donors

4.1 IFI and Donor Co-operation

The co-operation with other IFIs and the donor community in Moldova is good. The Bank, for instance, worked closely with the WB, the EIB and the IMF on a road rehabilitation project which signed in June 2007. The project, which leverages the WB's IDA financing, is the first joint investment by the three IFIs in Moldova and is viewed by the authorities as a model for other infrastructure projects possibly with grant financing from the EU's Neighbourhood Investment Fund and the United States' MCC Compact Programme.

The Bank regularly exchanges views and information about ongoing and planned activities with other institutions. The Bank liaises closely with the IMF on a variety of issues including financial sector concerns, tariff reform and IMF concessionality requirements. The Bank actively engages with the donor community through the monthly donor meetings. The Bank chaired two donor meetings on private sector development and established a database of donor initiatives in the sector. The EGPRSP (and its successor the National Development Plan) and the EU-Moldova Action Plan provide the overarching policy framework for the sustainable development of Moldova and create 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 IFIs and International Organisations[3]

4.2.1 Black Sea Trade and Development Bank (BSTDB)

Moldova is a founding member of the BSTDB which started its operations in 1999. The BSTDB has three projects in Moldova: a trade finance credit line, an SME credit line and an equity investment in a regional private equity fund.

4.2.2 European Investment Bank (EIB)

In December 2004, the Council of the European Union granted the EIB a mandate for financing selected projects in Russia and - subject to certain conditions - Ukraine,

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[3] In alphabetical order.

Moldova and Belarus. This first mandate, which expired in July 2007 - covered EIB loans up to an aggregate amount of €500 million in the areas of environment, transport, telecommunications and energy infrastructure on priority trans-European network axes with a cross-border aspect for EU Member States. Moldova became eligible for EIB financing in October 2006. In November 2006 the EIB concluded a framework agreement with Moldova paving the way for future EIB investments in the country.

In December 2006 the Council of the European Union granted the EIB a new mandate for the period from 2007 to 2013. The new mandate enables EIB to lend up €3.7 billion in Russia, Ukraine, Moldova and the Caucasus (Belarus may be included at a later stage) for projects of significant interest to the EU in transport, energy, telecommunications and environmental infrastructure. Priority will be given to projects on extended major trans-European network axes, projects with cross-border implications for one or more Member States and major projects favouring regional integration through increased connectivity. In the energy sector, strategic energy supply and energy transport projects are of particular importance.

In December 2006 the Bank, the EIB and the European Commission signed a Memorandum of Understanding which reinforces the close cooperation between the three institutions. In Moldova the Bank, the EIB and the WB agreed to finance the rehabilitation of key sections of Moldova's road infrastructure. The Bank and the EIB are also considering the joint financing of the modernisation of Chisinau airport and have had some preliminary discussions regarding the financing of the construction of a power transmission link between Ukraine and Romania via Moldova.

4.2.3 European Union (EU)

The EU plays an increasingly important role in supporting the transition of Moldova. In March 2005 the Council of the European Union 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 in October 2005 responds to Moldova’s requests for closer ties with the EU and facilitates the implementation of EU-assistance programmes in Moldova.

EU-Moldova relations 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:

- political dialogue and reform (democracy and rule of law);
- co-operation for the settlement of the Transnistria conflict;
- economic and social reform and development;
- trade-related issues, market and regulatory reform;
- cooperation in justice and home affairs;
- transport, energy, telecommunications, environment, research, development and innovation; and
- people-to-people contacts.

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 more than €405 million (including 2007 allocations) in assistance. This includes assistance provided under TACIS and the Food Security Programme, humanitarian assistance and macro-financial aid through balance of payments loans and grants. From 2007 EU assistance is provided through the European Neighbourhood and Partnership Instrument (ENPI). Under ENPI, EU assistance has increased substantially from approximately €14 million per annum from 2004 to 2006 to €40 million in 2007. The EU expects to provide a total of €210 million over the period 2007 to 2010. The National Indicative Programme 2007-2010 for Moldova identifies three key priorities for EU assistance over this period: 1) support for democratic development and good governance, 2) support for regulatory reform and administrative capacity building and 3) support for poverty reduction and economic growth. The EU has also approved macro-financial assistance to Moldova in the amount of €45 million. The first tranche of €20 million is due to be disbursed in September 2007.

4.2.4 International Monetary Fund (IMF)

Moldova joined the IMF in August 1992. To date Moldova has received approximately $470 million from the IMF. 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 the IMF’s concessional PRGF. The IMF suspended its previous programme when it went off track in 2002. In May 2006 the IMF resumed its lending relationship with Moldova with a three-year PRGF facility of approximately $118 million. The facility was subsequently increased to about $163 million to address the impact of the wine and gas crisis. Almost immediately after the approval of the current IMF programme, Moldova's Paris Club debt was rescheduled on Houston terms.

The current IMF programme is aligned with the EGPRSP and the EU-Moldova Action Plan and has three broad objectives: preserving macroeconomic stability, supporting financial sector development and stability and reassessing the government's role in the economy.

4.2.5 Organisation for Economic Cooperation and Development (OECD)

OECD's South East Europe Compact for Reform, Investment, Integrity and Growth (the "Investment Compact"), launched in 2000, is a key component of the Stability Pact under Working Table II on Economic Reconstruction, Development and Co-operation. The Investment Compact promotes and supports policy reforms aiming at improving the investment climate in South East Europe and thereby encouraging private direct investment and the development of a strong private sector. In Moldova the Investment Compact initiated an FDI promotion project in 2005 with the financial support of Switzerland. The first part of the project resulted in the government's adoption of an FDI and Export Promotion Strategy in October 2006. The second part of the project aims to adopt specific measures to attract foreign investments to Moldova and promote Moldovan exports abroad. It is currently being implemented by the government in cooperation with the Moldovan Investment and Export Promotion Agency (MIEPO) and the Foreign Investors' Association (FIA). This part of the project will focus on building an FDI database, launching foreign investors' events, defining and establishing an SME linkage programme and conducting a skill gap assessment.

The Investment Compact has also included Moldova in its Investment Reform Index (IRI) for SEE countries released for the first time in November 2006. The IRI is an overview of each country's performance on investment policy reform.

4.2.6 World Bank Group

Moldova joined the **World Bank** (WB) in 1992 and the International Development Association (IDA) in 1994. In 1997 Moldova became an IBRD/IDA blend country. Following the financial crisis in 1998 the country became eligible for concessional IDA credits. Since joining the World Bank, Moldova has received financing for 35 operations, including 7 adjustment IBRD loans and IDA credits, with a total commitment of $656 million of which $466 million have so far been disbursed. At present there are 13 operations under implementation, with a net commitment of $171 million of which 54% is undisbursed. Three other operations are under preparation (in health services and social assistance, road sector and a development policy credit) for a total amount of $43 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.

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. As a result of improved portfolio performance and better Country Policy and Institutional Assessment (CPIA) ratings, projected assistance was increased to $130 million. Budget support is 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 $77 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, sectortargeting, 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.

4.2.7 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 UN agency supporting the coordination of UN development work. It provides policy advice and technical assistance and promotes equitable and sustainable growth through institutional and human capacity building. UNDP's current Country Programme covers the period 2007-2011. The Country Programme encompasses two main areas: good governance and regional and local development. Specific programme interventions aim at modernizing the national public administration, improving the policy-making processes with increased civil society participation, enhancing the effectiveness of the justice system by fostering greater access to justice and observance of human rights, strengthening the management of natural resources and fostering local and regional development. The five-year cycle programme budget is estimated at around $35 million.

4.3 Main Bilateral Donors[4]

Denmark has been active in Moldova since 1998 in particular on environmental issues and NGOs support. To date Denmark's support to Moldova includes 21 projects under the Danish Neighbourhood Programme and four projects under the Humanitarian Policy & Assistance and NGO Co-operation. In 2006 Denmark committed approximately €100,000 for a film on human trafficking in Moldova.

Moldova has been included in a Regional Anti-Human Trafficking Programme (together with Ukraine and Belarus) funded by Denmark. The programme was launched in 2005 and is expected to last three years. For the period 2005-2008, Denmark has allocated €1.15 million to Moldova. The programme focuses on prevention (including awareness campaigns for vulnerable groups), law enforcement and capacity building of authorities and civil society organisations. The programme which is managed by IOM operates within existing national and regional frameworks in cooperation with OSCE and La Strada.

Germany and Moldova have pursued bilateral economic cooperation since 1993. Following the last bilateral consultations in November 2006, Germany committed €14.2 million in financial cooperation and €3.2 million in technical cooperation for the next two years. The bilateral cooperation primarily aims to reduce migration and poverty by promoting market economy and sustainable growth, facilitating financial restructuring (KMU credits) and supporting social infrastructure (through participation in the Moldova Social Investment Fund of the World Bank). New projects will support SMEs, infrastructure investments and measures to assist approximation to EU standards in the agricultural sector.

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4 In alphabetical order.

From 2001 to 2006 **Italy** has pledged more than €2 million in technical assistance among others to train bankers, the judiciary (particularly in the field of human rights) and social workers as well as to establish child protection centres. Most of these projects were implemented by NGOs. In 2005 Italy, in cooperation with IOM, launched a €1.5 million initiative to combat illegal migration and child trafficking. The first phase of this initiative is due to expire end 2007 and a second phase is currently under consideration. Italy is also considering a €200,000 contribution to co-finance a remittances project. The project would be co-financed with the European Commission and implemented by IOM and ILO.

The technical assistance offered by **The Netherlands** aims 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).

Norway has been supporting the social, economic and democratic development of Moldova since 1994. 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 tuberculosis.

Sweden has provided support to Moldova since 1996, through the appointment of an advisor to the government within the framework of a UNDP-administered democracy-project. Since 1998 **Swedish International Development Cooperation Agency (Sida)** has provided approximately €38 million. Sida's current strategy (2007 -2010) focuses on good democratic governance, increased competitiveness in the rural areas and reduced vulnerability in the energy area. A number of projects in the area of migration, social sector and labour market, remaining from the previous strategy period will be phased out during the coming years. Sida has a flexible budget system. Funds are allocated according to need and recipient country capacity. Sida's objective is to increase the volume of cooperation to an annual amount of up to €11 million.

Switzerland has been active in Moldova since 2000, providing assistance especially in the way of humanitarian aid. Since 2004 the Swiss Agency for Development and Cooperation (SDC) has 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 **United Kingdom**'s Department for International Development (DFID) has been active in Moldova since 1991 and has provided more than £12 million in technical assistance. The annual technical assistance continually increased during the last few years, building up from £1 million in 1999 to around £3 million per annum in 2006. 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.

From 1990 to 2005, the **United States of America** provided over $672 million in assistance to Moldova. The United States Agency for International Development (USAID) is the principal US agency managing and implementing foreign assistance programmes in Moldova. USAID focuses on three priority objectives in Moldova: 1) economic growth, 2) governing justly and democratically and 3) investing in people.

Economic growth programmes support the development of business and industry clusters, financial and investment intermediation, and enhancement of Moldova's business regulatory framework. Activities help stimulate economic growth and improve employment opportunities for Moldovan citizens by increasing the competitiveness of Moldovan products in international markets, and by creating a business environment and investment climate that supports and rewards competitive enterprise performance. Assistance also aims to increase economic opportunity and reduce unemployment among vulnerable populations, particularly woman at risk for trafficking. Governance programmes help to promote a more decentralized, participatory and democratic political environment by creating the conditions necessary for the development of more effective local political leadership and increased citizen participation in decision-making processes. In the area of rule of law, efforts aim to strengthen the overall integrity and efficiency of the legal system, and improve citizen confidence in the institutions and entities that create, adjudicate and enforce the law. Macro-level institutional reform is also supported, with an emphasis on reducing corruption and improving public sector service delivery by incorporating more transparent and democratic structures and principles into the Moldovan systems of governance. Investing in people programmes focus primarily on the most critical public health issues in Moldova, such as tuberculosis, HIV/AIDS and viral hepatitis B&C. In December 2006 Moldova and the United States signed a $24.7 million MCC Threshold Programme Agreement (TCP) aimed at reducing government corruption. Implementation of the TCP started in 2007. Successful implementation of the TCP, along with continued government support for reforms, could lead to a much larger MCC Compact award for Moldova.

ANNEX 1 – SIGNED BANK OPERATIONS AND PROJECT PIPELINE

Table 1: Commitments and Net Portfolio by Sector as of June 2007

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	**29**	**78.7**	**78.7**	**35%**	**54.3**	**18**	**28.5**	**32%**
Infrastructure	**13**	**243.9**	**94.5**	**42%**	**70.5**	**10**	**47.1**	**52%**
Energy	*3*	*60.9*	*28.0*	*12%*	*28.0*	*3*	*16.9*	*19%*
Water and Sewage	*1*	*29.0*	*15.6*	*7%*	*15.6*	*1*	*8.8*	*10%*
Transport	*5*	*146.3*	*44.2*	*20%*	*23.1*	*3*	*15.4*	*17%*
Telecommunications	*4*	*7.7*	*6.8*	*3%*	*3.8*	*3*	*6.0*	*7%*
Enterprise support	**16**	**85.4**	**51.5**	**23%**	**44.0**	**10**	**14.4**	**16%**
Agribusiness	*11*	*78.5*	*45.1*	*20%*	*41.8*	*5*	*8.2*	*9%*
General Industry	*1*	*0.7*	*0.4*	*0%*	*0.4*	*1*	*0.2*	*0%*
Financial Institutions Regional	*4*	*6.2*	*6.1*	*3%*	*1.8*	*4*	*6.0*	*7%*
Country Total	**58**	**407.9**	**224.8**	**100%**	**168.8**	**38**	**89.9**	**100%**

Table 2: Commitments and Net Portfolio by Class and Investment Type as of June 2007

Sector	COMMITMENTS (€ million)					NET PORTFOLIO (€ million)			
	No. of Projects	Total Project Cost	EBRD Funding	EBRD % of Total	Disbursed	Portfolio	% of Portfolio	Undrawn Commitment	Operating Assets
Private	*50*	*200.4*	*144.8*	*64%*	*101.4*	*63.0*	*70%*	*18.5*	*44.5*
Public	*8*	*207.5*	*79.9*	*36%*	*67.4*	*26.9*	*30%*	*12.5*	*14.4*
Country Total	**58**	**407.9**	**224.8**	**100%**	**168.8**	**89.9**	**100%**	**31.0**	**58.9**
Sovereign	*8*	*222.7*	*95.5*	*43%*	*83.0*	*26.2*	*29%*	*12.5*	*13.7*
NonSovereign	*50*	*185.3*	*129.2*	*57%*	*85.8*	*63.7*	*71%*	*18.5*	*45.2*
Country Total	**58**	**407.9**	**224.8**	**100%**	**168.8**	**89.9**	**100%**	**31.0**	**58.9**
Debt	*39*	*328.2*	*164.7*	*73%*	*139.3*	*65.7*	*73%*	*21.5*	*44.2*
Equity	*9*	*16.9*	*16.7*	*7%*	*10.0*	*16.6*	*19%*	*6.7*	*9.9*
Guarantee	*1*	*1.9*	*1.9*	*1%*	*0.0*	*0.0*	*0%*	*0.0*	*0.0*
Debt+Equity	*5*	*47.7*	*28.2*	*13%*	*19.5*	*0.9*	*1%*	*0.0*	*0.9*
Guarantee+Debt	*4*	*13.3*	*13.3*	*6%*	*0.0*	*6.7*	*7%*	*2.7*	*3.9*
Country Total	**58**	**407.9**	**224.8**	**100%**	**168.8**	**89.9**	**100%**	**31.0**	**58.9**

Table 3: Commitments and Net Portfolio as of June 2007

	COMMITMENTS (€ million)						NET PORTFOLIO (€ million)			Public / Private	Year of Signing
	Total Project Cost	Debt	Equity	Guarantee	EBRD Funding	Disbursed	Portfolio	Undrawn Commitments	Operating Assets		
Financial Institutions											
Victoria Bank Credit Line	3.2	3.0	0.2		3.2	3.2	0.2		0.2	Private	1995
Moldova-Agroindbank Credit Line	14.6	14.6			14.6	14.6				Private	1995
Micro-Lending Project - Banca Mobias	0.5	0.5			0.5	0.5				Private	1996
Micro-Lending Project - Victoria Bank	0.5	0.5			0.5	0.5				Private	1996
Micro Lending Project - Universal Bank	0.5	0.5			0.5	0.5				Private	1996
Micro-Lending Project - Moldova Agroindbank	0.9	0.9			0.9	0.9				Private	1996
Victoria Bank Capital Increase	0.2		0.2		0.2	0.2	0.2		0.2	Private	1997
Moldova-Agroindbank Senior Convertible Loan	7.7	5.9	1.8		7.7	7.7				Private	1998
Victoria Bank Capital Increase II	0.2		0.2		0.2	0.2	0.2		0.2	Private	1999
Regional TFP: Victoria Bank	3.7			3.7	3.7		0.0			Private	1999
Regioonal TFP: Moldova-Agroindbank	1.9			1.9	1.9					Private	1999
Regional TFP: Moldindconbank	2.2			2.2	2.2					Private	2000
ProCredit Bank Moldova (Formerly Micro Ent)	0.7	0.7			0.7	0.7	0.7		0.7	Private	2000
Victoriabank Credit Line (II)	3.0	3.0			3.0	3.0				Private	2001
Moldova-Agroindbank Credit Line (II)	4.4	4.4			4.4	4.4				Private	2002
Regional TFP: Mobiasbanca	6.7	0.0		6.7	6.7		5.6	1.7	3.9	Private	2002
Victoriabank Credit Line (III)	3.0	3.0			3.0	3.0	1.3		1.3	Private	2003
MCFF- Victoria Bank Full Recourse Portion	1.5	1.5			1.5	1.2	0.8	0.3	0.5	Private	2004
Mobiasbanca SME Credit Line	1.5	1.5			1.5	1.5	1.1		1.1	Private	2004
Moldindconbank Credit Line (MICB)	3.7	3.7			3.7					Private	2004
MCFF-Mobiasbanca Full Recourse Portion	2.2	2.2			2.2	0.7	2.2	1.5	0.7	Private	2005
ProCredit Moldova	1.5	1.5			1.5	1.5	1.5		1.5	Private	2005
Banca Sociala - Credit Line for SMEs	5.0	5.0			5.0	4.8	5.0	0.2	4.8	Private	2005
Regional TFP: Banca Sociala	0.7	0.0		0.7	0.7		1.0	1.0		Private	2005
ETC Non-Bank MFI FW - Rural Finance Corporation	0.6	0.6			0.6	0.6	0.4		0.4	Private	2005
Moldova MMF - Mobiasbanca	2.2	2.2			2.2	2.2	2.2		2.2	Private	2006
Moldova MMF - Banca Sociala	3.0	3.0			3.0	1.0	3.0	2.0	1.0	Private	2006
Mobias Credit Line II	2.2	2.2			2.2	1.1	2.2	1.1	1.1	Private	2006
ETC Non-Bank MFI Framework II - Microinvest	0.7	0.7			0.7	0.4	0.7	0.4	0.4	Private	2007
Infrastructure											
Energy											
Chisinau Energy Efficiency Project, Termocom	18.0	7.3	5.9		7.3	7.3	2.0		2.0	Public	1995
Moldova Power Distribution Equity Investment	5.9				5.9	5.9	5.9		5.9	Private	2001
Post-Privatisation Power Distribution Loan	37.0	14.8			14.8	14.8	9.0		9.0	Private	2001
Water and Sewage											
Chisinau Water Services Rehabilitation, Apa Canal	29.0	15.6			15.6	15.6	8.8		8.8	Public	1997
Transport											
Roads Rehabilitation Project	11.8	8.5	1.3		8.5	8.5	2.9		2.9	Public	1995
Port of Giurgiulesti Oil Terminal Project	28.1	7.3			8.6					Private	1996
Chisinau International Airport Modernisation	8.9	6.5			6.5	6.5				Public	1998
Danube Logistics	8.0	8.0			8.0	8.0				Private	2005
Moldova Road Rehabilitation Project	89.5	12.5			12.5	0.0	12.5	12.5		Public	2007
Telecommunications											
Eurovision - NRT Moldova	1.2	0.7			0.7	0.7				Public	1993
MCFF - Mobiasbanca Sun Communications Sub-Loan	0.5	0.2			0.2	0.2	0.1		0.1	Private	2006
SUN Communications - Debt	4.0	4.0	1.9		4.0	1.0	4.0	3.0	1.0	Private	2007
SUN Communications - Equity	2.0	0.0			1.9	1.9	1.9		1.9	Private	2007
Enterprise support											
Agribusiness											
Wine Export Promotion Project	43.2	22.8			22.8	22.8				Public	1994
GCC Cumulative Preference Share Issue	6.0	6.0			6.0	6.0				Public	2001
Moldova/WJ/2003/Warehouse Receipt Program	9.0	4.5			4.5	4.5				Private	2003
MCFF- Victoria Bank Orhei Vit Sub-Loan	2.0	1.0			1.0	1.0				Private	2004
MCFF- Victoria Bank Trans Oil Moldova Sub-loan	1.5	0.7			0.7	0.7				Private	2004
Glass Container Company	6.0	2.1			2.1	2.1	0.7		0.7	Private	2005
MCFF - Victoria Bank Bucuria Sub-Loan	2.9	0.7	2.4		0.7	0.7	0.5		0.5	Private	2005
DIF - Orhei Vit	2.4				2.4		2.4	2.4		Private	2005
MCFF - Mobiasbanca Basarabia Sub-Loan	1.3	0.7			0.7	0.5	0.6	0.1	0.5	Private	2006
MCFF Dionysos Sub-Loan	0.2	0.2			0.2					Private	2006
DLF Orhei VIT	4.0	4.0			4.0	3.5	4.0	0.5	3.5	Private	2006
General Industry											
MCFF- Victoria Bank Protos SA Sub-Loan	0.7	0.4			0.4	0.4	0.2		0.2	Private	2005
Regional			2.0								
European Fund for Southeastern europe	2.0	0.0	1.2		2.0	1.3	1.9	0.7	1.2	Private	2006
Bluehouse Equity Fund	1.3	0.0	1.8		1.2	0.2	1.2	1.0	0.2	Private	2006
BSR Europe Co-Investment Fund	1.8	0.0	1.1		1.8		1.8	1.8		Private	2006
Balkan accession fund CV	1.1	0.0	0.0		1.1	0.3	1.1	0.8	0.3	Private	2006
Country Total	**407.9**	**189.6**	**20.0**	**15.2**	**224.8**	**168.8**	**89.9**	**31.0**	**58.9**		

Table 4: Project Pipeline as of June 2007

Sector	EBRD Funding (€ Million)	% of total funding	No. of Projects	% of Total No. of Projects
Financial Institutions	**37.2**	**40%**	**13**	**50%**
• SME Credit Lines	6	7%	3	12%
• MSE Credit Lines	7	8%	1	4%
• MSE Guarantees	4	4%	3	12%
• Mortgage Lines	7.5	8%	3	12%
• MCFF	9	10%	1	4%
• TFP	1	1%	1	4%
• Equity	2.7	3%	1	4%
Private Entreprise	**14.8**	**16%**	**9**	**35%**
• MCFF Sub-Projects	4.8	5%	8	31%
• Loans	10	11%	1	4%
Infrastructure	**40**	**43%**	**4**	**15%**
• Tranport	15	16%	2	8%
• Power & Energy	20	22%	1	4%
• Municipal	5	5%	1	4%
Total	**92.0**	**100%**	**26**	**100%**
Private	**52**	**57%**	**22**	**85%**
Public	**40**	**43%**	**4**	**15%**

ANNEX 2 – POLITICAL ASSESSMENT

Compliance with Article 1

Moldova is committed to and making progress in applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. However, the record on democratic and market reform over the past strategy period has been uneven. Particular areas of concern include weak rule of law, lack of judicial independence and continuing attempts to undermine media freedom.

Political Accountability

According to its Constitution, Moldova is a multiparty 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 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 are weak.

Moldovan citizens have the right to change their government through periodic elections held on the basis of universal suffrage. Elections in Moldova have been judged generally free and fair by international observers, although some problems have been noted. The most recent parliamentary elections in March 2005 conformed to most international standards for democratic elections according to the OSCE. Nevertheless, they fell short in some important areas that are central to a competitive election process, such as equal campaign conditions for all contending parties and media balance and access.

The 2005 elections returned the incumbent majority party, the Communist Party of Moldova (CPM), to power with 56 of 101 parliamentary seats. The second largest opposition party, the Christian Democratic People’s Party, has since moved into ‘constructive opposition,’ becoming a *de facto* coalition partner. This unexpected alliance was facilitated by the late-2004 adoption by the CPM of a reformist, pro-European orientation. This shift in policy orientation entailed commitments to an economic and political reform agenda as manifested in the EGPRSP adopted in 2004, the EU-Moldova Action Plan adopted in 2005 and the IMF Poverty Reduction and Growth Facility (PRGF) adopted in 2006.

These commitments have resulted in a broad range of legislative reform initiatives, most of which have been designed with the participation of international organisations and bilateral donors. However, in many key areas – such as media independence, judicial reform, respect for freedom of association, competition policy and the establishment of a level playing field in the economy – implementation of these reforms has been weak. In an effort to address some of these implementation shortcomings, in December 2006 Moldova and the United States signed a $24.7 million Millennium Challenge Corporation Threshold Programme Agreement aimed at reducing government corruption and strengthening the rule of law. The government is incorporating the objectives of the

EGPRSP, EU-Moldova Action Plan and PRGF programmes into a new National Development Plan to be promulgated in autumn 2007.

Moldova has an active and increasingly professional NGO sector committed to partnership with the government in tackling the country's political and reform challenges. However, many NGOs face a difficult operating environment due to financial constraints and institutional obstacles, some of which stem from government interventions. 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 compete for (and in some cases allocate) funding from official sources.

The Rule of Law

The Constitution provides for an independent judiciary and the enabling legislation for the protection of judicial independence is largely in place. The constitutional court, which has exclusive authority in ruling on the constitutionality of all laws and decrees, is regarded as fair and independent. However, in practice there have been credible reports of political pressure influencing court decisions and corruption among judges is believed to be widespread.

Corruption remains a serious problem in Moldova. Transparency International's 2006 Corruption Perception Index (CPI) had Moldova scoring 3.2 out of a possible 10, where ten is least corrupt. While that rating is above Transparency International's 3.0 threshold for "rampant" corruption, Moldova nevertheless ranks only 79th out 163 countries in the 2006 index. National surveys also show a high incidence of corruption in several spheres of business and social life, and experts suggest the situation may be even more serious than surveys indicate as 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, particularly in areas such as customs and imports, business licensing and registration and tax collection and inspections. 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 committed more resources to combating the problems of corruption and the weak rule of law. On the former, the approach articulated by the authorities involves steps to reduce arbitrary state intervention in the economy through deregulation, including application of the guillotine principle to all legislation, as well as measures to reform the public sector, including reducing the size of the state bureaucracy and creating a professional and well-paid civil service. On strengthening the rule of law, the EU-Moldova Action Plan includes components aimed at strengthening law enforcement and increasing the efficiency, independence and impartiality of the judiciary.

As a result of these initiatives of the Moldovan authorities and its multilateral and bilateral donors, the trend since 2004 – when corruption in Moldova appeared to worsen in both absolute and relative terms – has been positive. Moldova has moved from the 78^{th} percentile globally in 2004 to the 48^{th} percentile globally in 2006, and from the 20^{th} to the 11^{th} rank among transition countries. According to the CPI, in 2006 Moldova had the lowest level of perceived corruption among the CIS countries. Notwithstanding these developments, however, corruption remains widespread.

Civil and Human Rights

Moldova's legislation 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. However, there are often major flaws in the implementation of Moldova's international commitments in this field. This 'implementation gap' is highlighted by the fact that the Moldovan government has been found to be in breach of its commitments under the European Convention on Human Rights in 18 of the 20 cases brought against it by Moldovan citizens in the European Court of Human Rights.

A major area of concern in Moldova is media freedom, which remains weak. Independent and investigative journalists report high levels of administrative interference, particularly with regard to reporting of corruption among the authorities. Moldova has approximately 80 officially registered TV and radio channels. While the proportion of privately owned media outlets has increased, many of these still receive significant subsidies from the government or other politically connected elites. The government has yet to implement its commitments to transform state-owned TeleRadio Moldova into a genuinely independent media concern or to de-politicise appointments to the board of the media regulator, the Broadcasting Coordination Council. The 'privatisation' in early 2007 of two municipally-owned outlets, the Chisinau-based television station EuroTV and radio station Antena C, was conducted in a non-transparent manner. EuroTV and Antena C were known for their independent editorial policy, and were the only media outlets to provide balanced coverage of the 2003 local council elections, leading to allegations that their 'privatisation' was intended to weaken their balanced coverage in the May 2007 local council elections.

Moldova's printed media is diverse and offers a variety of political opinions but is subject to pressure by the authorities. Furthermore, the market for newspapers is not well-developed. As a result, independent newspapers work under constant commercial strain, and report that the authorities attempt to constrain their independence and editorial policy through pressure exerted on their advertisers in order to try to direct editorial policy.

Trafficking in persons remains a significant problem in Moldova, which is a major country of origin for trafficked persons. Most trafficked persons are women and children trafficked for sexual exploitation, although trafficking also occurs for forced labour, begging, crime and organ harvesting. Poverty, an underdeveloped social safety net, high levels of unemployment, discrimination against women and domestic violence are cited as factors underlying the trafficking of Moldovan citizens. According to the OSCE, Moldova is also emerging as a trafficking hub, with persons being trafficked through Moldova from Transnistria and other countries in the CIS region. Moldovan victims are trafficked to Western Europe, South Eastern Europe, the Middle East, the former Soviet

Union (primarily Russia), and the United States. According to the International Organisation for Migration, in 2004 most Moldovan victims were trafficked to Turkey (45%), followed by South Eastern Europe (18%), the Middle East (15%), Russia (11%), and Western Europe (8%).

The Moldovan government is actively engaged in combating human trafficking. The Criminal Code and Criminal Procedure Code have included human trafficking as a distinct criminal offence since 2003, and in 2005 the Moldovan Parliament ratified the UN Convention against Transnational Organised Crime, including the Palermo Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children. In September 2005 the government's revised National Plan of Action to Prevent and Combat Trafficking in Human Beings entered into force, and in December 2005 the Law to Prevent and Combat Trafficking in Human Beings also became law. Despite these measures, the US State Department's 2007 'Trafficking in Persons Report' downgraded Moldova from 'Tier 2' to 'Tier 2 Watch List,' because the authorities 'did not provide evidence that the government is addressing complicity in severe forms of trafficking by government officials.'

External Relations

Since 2005 the Moldovan authorities have repeatedly reiterated their commitment to furthering the process of European integration. The EU's European Neighbourhood Policy offers the possibility of a significant degree of economic integration and political cooperation. This cooperation has been formalised since February 2005 in the EU-Moldova Action Plan, which covers crucial policy reforms in areas such as strengthening democratic institutions and the rule of law, independence of the judiciary, respect for human rights and fundamental freedoms including freedom of the media and of association – all areas the ENP Progress Report on Moldova of December 2006 highlighted as requiring renewed focus on implementation of reforms and international conventions – as well as business environment and structural reform, trade and customs and human trafficking. In December 2006 the EU, in partnership with major multilateral and bilateral donors, agreed on a major package of loans and concessional finance, with a total value of $1.2 billion for the period from 2007 to 2009. In doing so, the EU and the donor community stressed the need to accelerate the implementation of reforms which have been adopted over the past two years.

Relations with neighbouring Romania, which acceded to the European Union on 1 January 2007, have come under strain as Moldovans who were able to travel visa-free to and from Romania have been faced with a visa requirement. Large numbers of Moldovans are reported to have applied for Romanian citizenship, which the Moldovan authorities perceive as a threat to the economic and political viability of Moldovan independence.

The Transnistria conflict has remained frozen over the past strategy period. The OSCE's '5+2' negotiating framework, including Moldova, the Transnistrian "authorities", Ukraine, Russia and the OSCE, plus the United States and the EU as observers, has been generally inactive since early-2006. Some progress was made in the first quarter of 2006, when the Ukrainian authorities agreed to implement the Moldova-Ukrainian border agreement, according to which all exports crossing the Transnistrian section of the

Moldovan-Ukrainian border are required to carry Moldovan customs stamps. This led the Transnistrian "authorities" to suspend transit trade across the territory of Transnistria and to block all exports from Transnistria itself. Nevertheless, a number of large Transnistrian firms registered their export activities in Chisinau.

Moldova’s political and economic relations with Russia suffered a severe setback in 2006. In March 2006, Russia imposed a ban on Moldovan wine imports, claiming that Moldovan wines were contaminated by fertilisers and heavy metals. Over the first half of 2006 Russia’s state-controlled Gazprom effectively doubled the price of Moldova’s gas imports, from $80 per thousand cubic metres (tcm) at end-2005 to $ 160/tcm from start-July 2006. These ‘twin external shocks’ dealt a severe blow to the Moldovan economy. Prolonged negotiations between the two parties led eventually to an agreement by the Russian authorities to a limited resumption of Moldovan wine imports – although this has been postponed due to ongoing ‘technical’ problems – and a limited increase in the 2007 gas import price.

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.

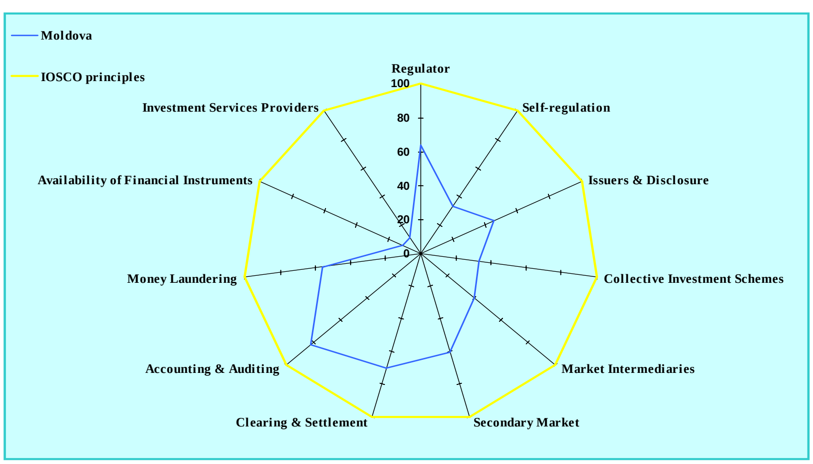
Capital Markets

The principal laws governing the Moldovan capital market is the Law on Securities Market of 1998. It was last amended in 2005 and 2006 to include new provisions on affiliated persons, tender offers and fiduciary administrators and their rights. Extensive amendments to the law are currently under discussion.

The regulator for the securities market is Moldova's Securities Commission. The Securities Commission is in charge of regulating, supervising and monitoring the securities market in Moldova in accordance with the Law on the National Securities Commission of 1998. The authorities have signalled their intention to create a mega-regulator in charge of the non-bank financial sector. The Moldova Stock Exchange was established in December 1994 and trading began in 1995. However, trading activity remains low and the market is under-developed.

In 2005 the Bank benchmarked the Moldovan securities market legislation against the "*Objectives and Principles of Securities Regulation*" published by the International Organisation of Securities Commissions (IOSCO). The results demonstrated that its legislation is in "*low compliance*" with international standards (see chart below).

Quality of securities market legislation –Moldova (2005)



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 2005

Among the various shortcomings evidenced, the Securities Commission is not fully independent and the provisions concerning its supervision of the market should be improved. The Securities Commission can impose fines but they are largely inadequate. Also, legislation on self-regulatory organisations (SROs) is 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 a few regulated and defined financial instruments are available and investment service providers are not specifically defined and regulated. Room for improvement exists in all these areas.

Company Law and Corporate Governance

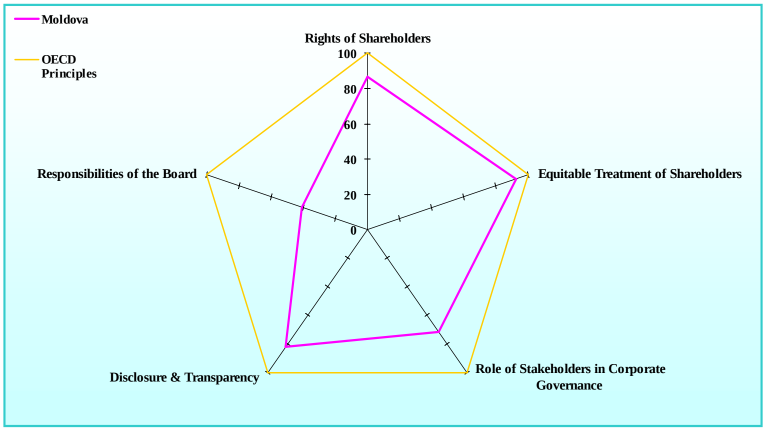
The Law on Joint Stock Companies (the JSC Law) was adopted in 1997 and has been amended several times since then, most recently in 2005 and 2006 in order to include new requirements on reporting and shareholders meetings. A new set of extensive amendments is currently under discussion. This contains new rules on transparency, bond issues, share capital requirements, significant transactions and conflict of interests.

In 2003 the Securities Commission issued a statement on the importance of corporate governance in Moldova and promoted the drafting of a Corporate Governance Code. Currently a draft Code – prepared with the assistance of FIRST (Financial Sector Reform and Strengthening (FIRST) Initiative – a multi-donor programme) is available on the Securities Commission website for discussion. If adopted, the Code would become applicable to listed companies from 2008 under the "comply-or-explain" approach.

JSCs are organised under a two-tier system where the general shareholders meeting appoints the management board - unless the charter provides otherwise - and the supervisory council. In JSCs with less than 50 shareholders, the powers of the supervisory council can be exercised by the general shareholders meeting. There are no rules on employee participation in the company management.

In 2004 the Bank conducted an assessment on the extensiveness of corporate governance in which Moldova was rated "high compliance" when benchmarked against the OECD Principles of Corporate Governance. A survey conducted by the Bank in 2005 to test the effectiveness of corporate governance however revealed some weaknesses. The Bank designed a case study involving related-party transactions. The survey revealed that there are a number of legal avenues for a minority shareholder to request disclosure or seek redress in Moldova. Their effectiveness, however, is limited by the complexity and the length of procedures and the difficult enforcement. Moreover, the institutional environment is weak in many respects. Company books are not fully reliable and statutory auditors are unlikely to be independent from the company's management. Competence and experience of institutions need to be improved. Corruption and partiality of judgements are still reported as major problems. Although the framework on related party transactions is good, Moldova is a typical example of good laws on the books but poor implementation.

Quality of corporate governance legislation – Moldova (2004)



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 2004

Concessions

Moldova has a special Law on Concessions of 1995, as amended. 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 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. Procedure-wise, overall, rules are fair, with pre-selection procedures provided for as well as limited grounds for direct negotiations. The concessionaire's right to compensation is provided for by means of court procedures. Disputes may be resolved either by court proceedings or by arbitration (including international).

A clear shortcoming of the Concessions Law is that any transfer by a concessionaire of concession assets or rights is prohibited. This statutory restriction inevitably limits financing options. Certain provisions in relation to the project agreement may give rise to inflexibility in negotiations. For instance the use of the model concession agreement is compulsory. The fact that the Concessions Law allows the concession granting authorities to unilaterally change the terms of a concession agreement on certain specific grounds listed in the Concessions Law may also give rise to concern. Finally the grounds for termination seem vague.

The Bank's 2005 Concession Laws Assessment, which examined the laws on the books (rather than how they work in practice), revealed that Moldovan laws had "medium compliance" with internationally accepted standards in this sector. The Bank's 2006 Legal Indicator Survey gave Moldova a "low effectiveness rating" suggesting that implementation could be significantly improved.

Insolvency

Bankruptcy and insolvency in Moldova are governed primarily by the Insolvency Law of 2001 (as amended). 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".

The Insolvency Law has a number of strengths. It establishes an effective regime for commencing proceedings and the procedure for avoiding pre-bankruptcy transactions is clearly laid out. Recent amendments have clarified and solidified the criteria for admission to the profession of insolvency administrators and there have been improvements with respect to the rules governing the liquidation of a debtor's assets. The restructuring process, already reasonably thorough, also benefited from the recent amendments. To help facilitate restructuring, the state creditors, ministries and administrators of debtors determined to be of "vital importance to the national economy" have been authorised to petition the government and parliament to reduce or eliminate debts owed to the state.

Despite the recent amendments, the Insolvency Law could be significantly improved in a number of ways. Among other things, the law could provide a clearer (and therefore more transparent) description of what precisely constitutes insolvency and it could provide mechanisms for dealing with cross-border insolvencies. One might also query the reasoning behind the provision limiting the number of cases which may be handled by an administrator.

Assessing the state of insolvency legislation in any country provides only part of the picture. It is also necessary to look at the practical functioning of the insolvency regime. The results of the Bank's 2004 Legal Indicator Survey on Insolvency showed that it was relatively easy to determine which court proceedings should be commenced and the degree of formality required to access the insolvency process did not present a huge obstacle. The process, however, was seen as far too expensive and the courts generally could not be relied upon to deal with insolvency matters in a predictable and competent manner.

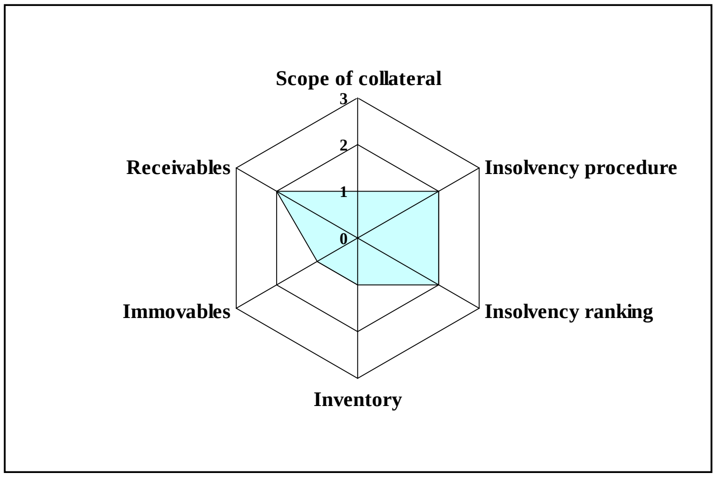
The survey also revealed that in general, it was somewhat easier for debtors to access insolvency systems in Moldova than creditors. This remains consistent with most of the Bank's countries of operations and reflects, in part, the fact that the initial access of the insolvency regime by creditors is 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

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

The biggest drawback is enforcement of the security. In 2003 the 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.

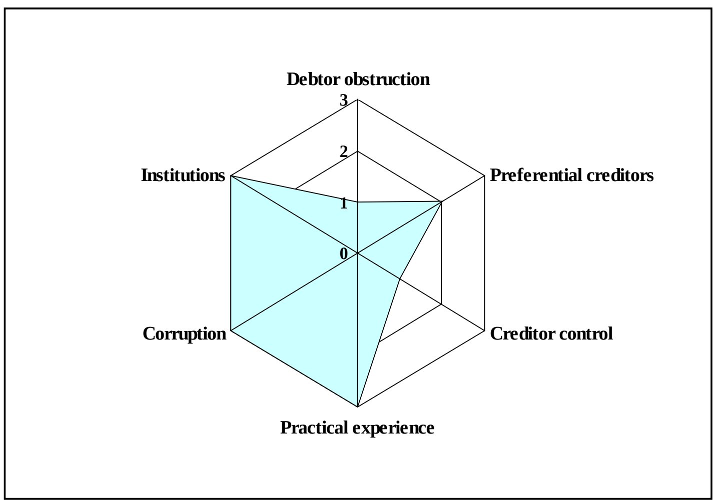
Obstacles to charge enforcement process – Moldova (2003)



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

Since 2005 the Bank has been working with the Ministry of Economy and Trade to improve the legal framework for mortgages. The Law on Pledge is also applicable to mortgages (security over real estate) and the general perception among users was that the system needed to be made more comprehensive and to address specificities of real property. A draft law has been prepared with the Bank's assistance that is currently being discussed ahead of its adoption.

Telecommunications

The telecommunications sector is currently governed by the Telecommunications Law of 1995, as amended, and is regulated by ANRTI. ANRTI 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 for Information Development.

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 its legal exclusivity over local, long distance and international fixed-line telephony in January 2004. 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, they encounter significant difficulty competing against Moldtelecom's overwhelmingly dominance.

The development of the sector has reached a critical juncture. It now requires full government engagement and meaningful reform implementation to move forward. Communications regulation is a highly developed subject matter that requires legal, technical, economic, market and financial expertise. For regulation to succeed, a single communications regulator needs to have clear responsibility and authority for the sector. ANRTI has such a mandate and has been making efforts to implement reforms necessary to attract investment. Unfortunately, the government's continuing failure to appoint appropriate members to the ANRTI board and delays in establishing a competition agency have prevented ANRTI from taking meaningful decisions. Similarly, the current and proposed legal framework for the sector falls well short of the international best practices (those of the EU) which the government publicly aspires to. This state of affairs will continue to prevent the achievement of the government's sector development targets and denies the citizens of Moldova the many and varied benefits today's information society has to offer.

The government currently has an opportunity to directly address the issues identified above. The government should publicly confirm the status of ANRTI as an independent regulatory agency and affirm the government's commitment to the principle of fully EU consistent regulation for the sector. To cement this, the government should immediately revise the current proposed draft Electronic Communications Law, ensuring full harmonisation with relevant and applicable EU sector regulatory standards. Finally, to ensure adoption and enforcement of EU standards within the sector, the government should publicly commit to and provide all necessary support and resources to ANRTI in their follow-on implementation of the new law.

The Bank has offered the government comprehensive technical assistance to support revising the legal framework for the sector and its follow-on implementation by ANRTI.

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 focuses its environmental interventions in the area of sustainable agriculture and biodiversity conservation by implementing a biodiversity conservation project in the lower Nistru 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-pronged 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 aimed to reduce the high incidence of fatalities from electrocution. The majority of these fatalities involve members of the general public, often children. The Bank worked 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 improved 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 raised 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

	2000	2001	2002	2003	2004	2005	2006 *Estimate*	2007 *Projection*
Output and expenditure	*(Percentage change in real terms)*							
GDP	2.1	6.1	7.8	6.6	7.3	7.1	4.0	6.0
Private consumption	27.6	6.1	5.9	18.5	6.2	10.1	7.0	na
Public consumption	-17.9	-5.8	31.4	3.2	-16.2	6.3	5.3	na
Gross fixed capital formation	-0.7	5.2	1.1	13.5	10.5	11.0	15.1	na
Exports of goods and services	6.8	15.7	18.9	19.2	11.0	17.7	2.8	na
Imports of good and services	29.8	11.1	15.8	28.7	3.6	18.1	10.3	na
Industrial gross output	7.7	13.7	10.8	15.6	8.2	7.0	-6.9	na
Agricultural gross output	-3.3	6.4	3.4	-13.6	20.8	0.8	-4.6	na
Employment	*(Percentage change)*							
Labour force (annual average)	-1.7	-2.3	-0.1	-8.8	-3.3	-2.2	na	na
Employment (annual average)	1.4	-1.0	0.4	-9.9	-3.4	-0.6	na	na
	(In per cent of labour force)							
Unemployment (annual average) 1/	8.5	7.3	6.8	7.9	8.0	6.4	7.3	na
Prices and wages	*(Percentage change)*							
Consumer prices (annual average)	31.1	9.6	5.2	11.6	12.5	12.0	12.8	10.5
Consumer prices (end-year)	18.4	6.3	4.4	15.7	12.5	10.2	14.0	10.3
Producer prices (annual average)	28.5	12.3	4.7	7.8	5.6	5.3	12.2	na
Producer prices (end-year)	24.3	5.7	6.7	9.2	4.9	7.0	13.1	na
Gross average monthly earnings in economy (annual average)	33.9	33.3	27.2	28.8	23.8	19.5	28.6	na
Government sector 2/	*(In per cent of GDP)*							
General government balance (commitment basis)	-1.8	-0.3	-2.2	1.0	0.4	1.5	-0.3	-0.6
General government expenditure	34.5	29.4	31.5	33.1	35.1	37.0	40.8	38.4
General government debt	91.7	78.4	73.1	58.9	46.0	34.7	34.7	na
Monetary sector	*(Percentage change)*							
Broad money (M2, end-year)	17.2	29.6	24.9	7.6	28.6	24.1	-1.6	na
Domestic credit (end-year)	14.4	29.6	25.2	24.3	25.8	15.8	27.5	na
	(In per cent of GDP)							
Broad money (M2, end-year)	15.7	18.2	20.0	20.4	25.4	29.5	28.3	na
Interest and exchange rates	*(In per cent per annum, end-year)*							
Refinancing rate	27.0	13.0	9.5	14.0	14.5	12.5	14.5	na
Money market rate	20.3	10.8	5.2	13.0	13.3	6.3	6.5	na
Deposit rate	24.6	20.6	14.4	12.7	15.2	13.0	11.9	na
Lending rate	33.3	28.5	23.1	19.2	21.0	18.9	18.2	na
	(Lei per US dollar)							
Exchange rate (end-year)	12.4	13.1	13.8	13.2	12.5	12.8	12.9	na
Exchange rate (annual average)	12.4	12.9	13.6	13.9	12.3	12.6	13.1	12.5
External sector	*(in millions of US dollars)*							
Current account	-98	-25	-67	-130	-58	-241	-399	-364
Trade balance	-294	-313	-378	-623	-754	-1,192	-1,591	-1,777
Merchandise exports	477	567	660	805	994	1,105	1,053	1,158
Merchandise imports	770	880	1,038	1,429	1,748	2,296	2,644	2,935
Foreign direct investment, net	127	102	132	71	146	199	223	250
Gross reserves (end-year), excluding gold	222	229	269	302	470	597	775	na
External debt stock	1,721	1,675	1,815	1,925	1,898	2,080	2,482	na
	(In months of imports of goods and services)							
Gross reserves (end-year), excluding gold	2.75	2.52	2.49	2.10	2.67	2.63	2.97	na
	(In per cent of exports of goods and services)							
Debt service	16.8	13.4	13.8	12.2	10.2	5.8	6.4	na
Memorandum items	*(Denominations as indicated)*							
Population (end-year, millions) 3/	3.6	3.6	3.6	3.6	3.4	3.4	3.4	3.4
GDP (in millions of Lei)	16,020	19,052	22,556	27,619	32,032	37,652	44,069	51,618
GDP per capita (in US dollars)	353	407	458	547	767	883	988	1,216
Share of industry in GDP (in per cent)	19.0	21.8	20.2	20.5	20.5	17.0	na	na
Share of agriculture in GDP (in per cent)	25.4	22.4	21.0	18.3	17.5	14.2	na	na
Current account/GDP (in per cent)	-7.6	-1.7	-4.0	-6.6	-2.2	-8.1	-11.9	-8.8
External Debt - Reserves, in US$ millions	1498	1447	1546	1622	1428	1483	1707	na
External Debt/GDP (in per cent)	133.6	113.1	109.2	97.2	73.0	69.6	74.0	na
External Debt/ exports of goods and services (in per cent)	268.3	226.9	207.1	181.7	142.6	138.1	161.6	na

Notes:

1/ According to ILO methodology

2/ Consolidated accounts of the National Budget, including state and local authority budgets, social security and healthcare.

3/ Excluding the population of Transnistria

ANNEX 6 – TECHNICAL CO-OPERATION PROGRAMME

Table 1: Technical Co-operation by Sector as of June 2007

Sector	€ Committed	€ Disbursed
Financial Institutions	4,636,770	3,823,007
Infrastructure	4,428,814	4,428,814
Private Enterprise	4,108,474	3,204,018
Legal Transition	701,562	556,760
Country Total	**13,875,621**	**12,012,599**

Table 2: Technical Co-operation by Donor as of June 2007

Donor	€ Committed	€ Disbursed
Belgium	12,770	12,770
Canada	340,901	340,901
Denmark	111,757	111,757
EU	4,058,358	3,920,986
France	254,499	254,499
Germany	549,281	549,281
Greece	128,946	128,946
Italy	82,931	82,931
Japan	2,415,502	2,370,083
Netherlands	341,971	341,971
Switzerland	851,269	706,467
Taipei China	420,512	420,512
United Kingdom	400,459	400,459
United States	745,847	745,847
ETC	2,922,519	1,387,091
Financial Sector Fund	105,798	105,798
Multi-Donor	90,241	90,241
TC Special Fund	42,059	42,059
Country Total	**13,875,621**	**12,012,599**

Table 3: Technical Co-operation as of June 2007

Commitment Number	Commitment Name	Euro Committed	Euro Disbursed	Stage	Linked to Investment
BRSF-2003-10-03	Moldova : Improving Leasing Transactions Related Legislation	90,241	90,241	Closed	
CA3F-2004-08-03	Moldova Electrical Safety	265,000	265,000	Closed	
CAN-1998-01-01	Moldovan Metallurgical Works - legal advice	25,901	25,901	Closed	Moldovan Metallurgical Works
CAN-1999-05-03	Legal due diligence equity warehouse project	50,000	50,000	Closed	Moldova Power Distribution Equity Investment
DEN-1998-03-02	TurnAround Management Programme - Floare-Carpet SA	35,192	35,192	Closed	
DEN-2004-06-04	TAM - Orvento Metal Trading	42,179	42,179	Closed	
DEN-2006-05-02F	TAM - Orvento Metal Trading	34,386	34,386	Closed	
EC-1994-09-39	Wine export promotion - short-term expertise	222,935	222,935	Closed	Wine Export Promotion
ECT-1995-06-08	Credit adviser for Moldova - Agroindbank	216,281	216,281	Closed	Mold Agro Ind Bank Credit Line (MAIB)
ECT-1995-06-10	Road rehabilitation design study	273,861	273,861	Closed	Road Rehabilitation Project
ECT-1995-06-13	Credit adviser for Victoria Bank	204,669	204,669	Closed	Victoria Bank Credit Lines and Equity Investment
ECT2000-2001-10-13	Micro Enterprise Credit DIN S.A. (MEC), Moldova - Expansion of Office/Branch Network	578,285	578,285	Closed	ProCredit Moldova
ECT96-96-10-06	Investment led privatisation programme	386,900	386,900	Closed	
ECT96-97-01-37	Chisinau water services - corporate development assistance	799,729	799,729	Closed	Chisinau Water Services Rehabilitation Project
ECT97-2000-08-72	Pavement management systems	411,557	411,557	Closed	Road Rehabilitation Project
ECT98-98-12-51	Moldova Agroindbank senior convertible loan	249,571	249,571	Closed	Moldova Agroindbank Credit Lines and Equity Investment
ECT99-2000-03-35	Chisinau Water Services Corporate Development Assistance	220,134	220,134	Closed	Chisinau Water Services Rehabilitation Project
EIPF02-2003-08-06	MEC Moldova - Management and Regional Expansion	299,436	299,436	Closed	ProCredit Moldova
EIPF03-2006-06-16	Moldova: Factoring Advisory Services for Banks & Factoring Companies	195,000	57,627	Disbursin g	Regional Trade Facilitation Programme
ETCF-2005-04-08F	Implementation of the BAS Programme during 2005-2007 (3 years)	1,058,000	436,505	Disbursin g	
ETCF-2005-04-13F	Continuation of TAM Programme in Moldova	306,939	190,618	Disbursin g	
ETCF-2005-04-14	Moldova: Medium Sized Co-Financing Regional Facility TC Project	46,016	46,016	Closed	MCFF - Victoria Bank and Mobiasbanca Co-Financing Facility
ETCF-2005-12-43	Moldova: Enhancement of Lending and Risk Management Skills	27,624	27,624	Closed	
ETCF-2006-01-05F	TAM - Cristal Flor JSC	35,060	35,060	Closed	
ETCF-2006-01-09	Moldova Microlending Programme - Implementation of a Micro and Small Enterprise (MSE) Lendin	1,300,000	623,610	Disbursin g	Mobiasbanca SME Credit Line and Banca Sociala - Credit Line for SMEs

ETCF-2006-09-25F	TAM - Cahul Pan SA	74,440	19,518	Disbursin g	
ETCF-2006-12-43F	TAM - Arlon Group	74,440	8,141	Committe d	
FLN-1997-08-01	TurnAround Management Programme - Tirotex	5,350	5,350	Closed	
FLN-1997-10-02	TurnAround Management Programme - Moldavizolit	7,420	7,420	Closed	
FRB-1993-06-07	Wine quality improvement and export promotion	172,191	172,191	Closed	Wine Export Promotion Project
FRB-1994-04-01	Agro-processing and food distribution	32,329	32,329	Closed	
FRB-1994-06-03	Solar energy and demand - side pre-feasibility study	49,979	49,979	Closed	
GER-1995-01-01	Wholsale market feasibility study	175,463	175,463	Closed	Chisinau Wholesale Market, Moldova
GERK-1995-12-01	Heat tariff study	173,818	173,818	Closed	Energy Efficiency Project
GERK-2003-06-01	MEC Moldova - Management and Regional Expansion	200,000	200,000	Closed	ProCredit Moldova
GRE-1999-06-01	Power Distribution Equity Warehouse: Technical, Financial, Environmental Due Diligence	128,946	128,946	Closed	Moldova Power Distribution Equity Investment
HOL-1993-06-08	Wine sector investment programme - wine export packaging development	181,512	181,512	Closed	Wine Export Promotion
HOL-1994-03-05	Wine export promotion - project preparation of implementation framework	86,102	86,102	Closed	Wine Export Promotion
HOL-1994-03-06	International audit for Victoria Bank	48,828	48,828	Closed	Victoria Bank Credit Lines and Equity Investment
HOL-1997-10-07	TurnAround Management Programme - Moldavizolit	15,275	15,275	Closed	
ITA-2004-06-05	TAM - Acorex Wine Holding	58,905	58,905	Closed	
ITA-2006-03-03F	TAM - Acorex Wine Holding	24,026	24,026	Closed	
JAP-1994-02-04	Energy efficiency improvement study	140,085	140,085	Closed	Energy Efficiency Project
JAP-1994-10-39	Wine export promotion	737,118	737,118	Closed	Wine Export Promotion
JAP-1995-11-31	Advisory services for the privatisation of Moldtelecom through an international competitive tender	470,000	470,000	Closed	Moldtelecom Privatisation
JAP-1995-12-34	Assessment of road needs	324,075	324,075	Closed	Road Rehabilitation Project
JAP-1996-07-18	Development of commercial management systems - Termocom	447,941	447,941	Closed	Energy Efficiency Project
JAP-1997-07-17	TurnAround Management Programme - JSC Tirotex	11,500	11,500	Closed	
JAP-1998-01-01	TurnAround Management Programme - Moldavizolit	5,766	5,766	Closed	
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
JAP-2006-02-07F	TAM - Hemosan	85,500	40,081	Disbursin g	

MOLF-2003-12-01	MAIB Institutional Building Advisor	105,798	105,798	Closed	Moldova Agroindbank Credit Lines and Equity Investment
NLT-2004-02-01	Feasibility Study for a BAS Programme in Moldova	10,254	10,254	Closed	
SCRF-2004-12-02	Mortgage Transactions Reform in Moldova - Exploratory Project	61,518	61,518	Closed	
SCRF-2006-01-02F	Mortgage Law and Mortgage Securitisation in Moldova Phase 2	293,000	243,973	Disbursing	
SCRF-2007-02-01F	Mortgage Law and Mortgage Securitisation in Moldova - Phase II - Tranche 2	122,344	26,568	Committed	
SWI-1995-09-04	Micro-lending scoping mission	42,602	42,602	Closed	Micro Lending Project
SWI-96-09-03PS	Swiss-American Micro-Enterprise Programme	331,805	331,805	Closed	Micro Lending Project
TAI-1995-09-03	Advice on privatisation, legislation and policy - Moldtelecom - sector policy and regulatory development	93,272	93,272	Closed	
TAI-1997-08-06	Moldova wine investment framework facility	19,696	19,696	Closed	Moldova Wine Investment Framework Facility
TAI-1998-10-08	TurnAround Management Programme - Moldova metallurgical works (tied portion)	15,604	15,604	Closed	
TAI-1998-10-09	TurnAround Management Programme - Moldova metallurgical works	59,808	59,808	Closed	
TAI-1999-08-08	Wine export promotion project	232,133	232,133	Closed	Wine Export Promotion
TCS-1997-11-08	Moldovan metallurgical works - environmental assessment	23,307	23,307	Closed	Moldovan Metallurgical Works
TCS-1998-09-07	Wine export promotion project	18,752	18,752	Closed	Wine Export Promotion Project
UKB-1994-07-08	International audit for Victoria Bank	13,743	13,743	Closed	Victoria Bank Credit Lines
UKB-1995-11-18	Assistance in developing a secured transactions law for Moldova	24,961	24,961	Closed	
UKB-1997-11-20	Moldovan metallurgical works	90,735	90,735	Closed	Moldovan Metallurgical Works
UKB-1998-03-03	TurnAround Management Programme - Floare Carpet SA	10,296	10,296	Closed	
UKB-1998-05-05	Assistance with the establishment of a registry for pledges (local consultants)	35,502	35,502	Closed	
UKB-1998-05-06	Assistance with the establishment of a registry for pledges	48,094	48,094	Closed	
UKB-1998-09-17	TurnAround Management Programme - JSC Tirotex II	87,312	87,312	Closed	
UKB-1998-10-20	TurnAround Management Programme - Moldova Metallurgical Works	14,874	14,874	Closed	
UKB-1998-11-23	TurnAround Management Programme - JSC Tirotex	29,054	29,054	Closed	
UKD-1999-04-06	TurnAround Management Programme - Vitis Hincesti SA	14,621	14,621	Closed	
UKD-2004-10-05	Orhei Vit Technical & Financial Due Diligence	31,267	31,267	Closed	DIF - Orhei Vit
USAD-96-08-01PS	Swiss-American Micro Enterprise Programme	745,847	745,847	Closed	Micro Lending Project
Country Total		**13,875,621**	**12,012,599**		