DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR MOLDOVA

As approved by the Board of Directors at its meeting on 30 April 2014
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EXECUTIVE SUMMARY

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

The ruling Alliance for European Integration (AEI) government, which had been in power for more than three years, was thrown into disarray in early 2013 following a major corruption scandal which led to the collapse of the government in March 2013. A new government coalition including the three same parties was subsequently reformed, with little change to the composition of the Cabinet. The premiership was passed to Foreign Minister Iurie Leancă, who outlined an ambitious pro-European reform programme, and Moldova initialled an Association Agreement with the EU in late-November 2013, with signing planned to take place in 2014.

There has been little progress with regard to the long-‘frozen’ Transnistria conflict in recent years. The Moldovan government has continued to pursue a strategy of gradual normalisation of social and economic relations while seeking to make political integration more attractive by securing enhanced access to European markets and visa-free travel to the EU. However, concrete steps toward a political settlement have been limited.

The Moldovan economy expanded strongly in 2010-2011, supported by government reforms. However, GDP declined by 0.7 per cent in 2012 in response to weakening external demand in the EU and unfavourable weather conditions. In the first nine months of 2013 real output rebounded by 8.0 per cent year-on-year supported by growing remittances, recovery of industrial exports and agricultural production. In the short run, the Moldovan economy will continue to depend on developments in the EU and Russia, the major source for remittances and exports demand. Exports, which are still dominated by low-value added agriculture and textiles, and corresponding industries will be affected by volatile commodity prices. The country’s longer term prospects hinge on the ability to create conditions for investment-led growth. To increase incomes from the current low level, private sector investments into manufacturing industry will need to increase substantially along with the already expanding access to various markets.

In late-2012 the Moldovan Parliament adopted a long-term National Development Strategy “Moldova 2020”, the main objective of which is to create the conditions for economic growth with a strong focus on private sector development. The Strategy prioritises aligning education to labour market requirements; developing road infrastructure; reducing the financing cost of businesses; improving the business climate; reducing energy consumption and promoting energy efficiency; ensuring the sustainability of the pension system; and reducing corruption in the justice sector.

The authorities have made efforts to improve the business climate, although the pace of reforms slowed during the recent political crisis. Reforms to cut red tape, improve competitiveness, and stimulate trade were carried out in 2011-2012. The authorities have been implementing a ‘Regulatory Guillotine 2’ programme to systematically reduce unnecessary regulations and improve legislation. Education sector reform was initiated in 2011 to help improve labour force quality while reducing fiscal outlays.
However, since the beginning of 2013 the pace of transformation has slowed. The new government, formed in May 2013, declared a strong commitment to accelerating the pace of reforms and has established committees charged with exploring reforms to further cut red tape, decrease the regulatory burden, and stimulate competition. Fighting corruption, which has remained one of the main obstacles to development for many years, has been proclaimed by the government as a key priority.

Although some progress has been made, reforms to public governance, and in particular the strengthening of the rule of law and reforming the judiciary, have lagged behind the government’s stated ambitions to adopt European values and ensure rapid approximation with EU norms. Governance in the financial sector in particular suffers from serious systemic challenges. Following a contested bank takeover attempt in 2011, legislation was amended to strengthen governance of financial institutions and increase transparency of bank ownership. However, faced with strong political resistance, the authorities have been unable to enforce effectively the legislation. The government will need to persevere with implementation of institutional reforms to ensure that the judiciary is independent and impartial, reduce corruption, further improve tax and customs administration and strengthen the independence of the National Bank.

Moldova has made important steps toward further integration with the EU. In June 2013, the authorities concluded the technical negotiations on the Association Agreement and creation of a Deep and Comprehensive Free Trade Area (DCFTA), which is expected to bolster trade between Moldova and the EU, improve competition and the business environment, improve quality and safety standards and attract new foreign investment. The Association Agreement and DCFTA were initialled in late-November 2013, and signing and entry into force are planned for 2014.

**Strategic directions**

Moldova is an early transition country with significant transition challenges across virtually all sectors of the economy. In the next Strategy period the Bank will focus on addressing the following strategic priorities:

- **Creating the enabling conditions for private sector development.** The Moldovan economy still faces significant challenges deriving from a weak business environment and poor corporate governance, which must be strengthened in order to increase competitiveness and attract more investment. Governance and transparency in the banking sector are particular concerns which must be addressed to develop local capacity and create a platform for attracting investment.

- **Promoting European standards and regional integration.** Adopting European standards is essential to enhance the competitiveness of Moldova’s manufacturing and agribusiness sectors. In parallel, improving transport and communications links is vital to facilitate Moldova’s integration into European and wider regional markets. Public sector operations should target those areas that help stimulate sustainable growth, driven by net exports and based on productive industries, and do not overburden the state budget.
• **Enhancing commercialisation and sustainability of municipal enterprises.** Moldova’s municipal utilities suffer from decades of neglect. Urgently needed capital investments are deterred by the below cost recovery levels of tariffs. The Bank will therefore focus on encouraging commercialisation and regulatory reform, including tariff reform, to strengthen the sustainability of municipal transport, water and district heating providers.

The Bank will continue to cooperate closely with other international financial institutions and multilateral and bilateral partners, including the European Union, in its operations as well as through policy dialogue to maximum transition impact in Moldova.
1. THE BANK’S PORTFOLIO

1.1. Overview of Bank activities to date

As at end-December 2013 the Bank has signed a total of 105 projects with a cumulative investment value of EUR 818 million since initiating its operations in Moldova in 1991. The total value of these projects was EUR 1.65 billion. Cumulative disbursements amounted to EUR 447 million. 43 per cent of the Bank’s investments were made in the financial sector, 32 per cent in the infrastructure sector, 19 per cent in the corporate sector and 6 per cent in the energy sector.

During the previous Strategy period, from end-2010 through end-December 2013, the Bank signed 38 projects with a total value of EUR 300 million. Operating assets in Moldova increased by EUR 16 million over the previous Strategy period, affected by a high level of repayments and divestments in 2011 and 2012. The portfolio grew by EUR 110 million, similarly affected by reflows. The Bank’s current portfolio of EUR 394 million across 58 projects is concentrated in the infrastructure sector (52 per cent) and the financial sector (25 per cent), with 16 per cent in the corporate sector and 6 per cent in the energy sector. Operating assets stand at EUR 172 million.

Table 1. Cumulative Business Volume and Portfolio in Moldova as of 31 December 2013

<table>
<thead>
<tr>
<th>Sector Group</th>
<th>Sector Team</th>
<th>NCBV # ops</th>
<th>Net Cumulative Business Volume (NCBV)</th>
<th>% NCBV</th>
<th>Portfolio # ops</th>
<th>Portfolio</th>
<th>% Portfolio</th>
<th>Operating Assets</th>
<th>% Operating Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>Natural Resources</td>
<td>0</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Power and Energy</td>
<td>4</td>
<td>46</td>
<td>6%</td>
<td>2</td>
<td>23</td>
<td>6%</td>
<td>8</td>
<td>5%</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>Depository Credit (banks)</td>
<td>46</td>
<td>340</td>
<td>42%</td>
<td>24</td>
<td>93</td>
<td>24%</td>
<td>69</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>Leasing Finance</td>
<td>3</td>
<td>5</td>
<td>1%</td>
<td>2</td>
<td>3</td>
<td>1%</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>Non-depository Credit (non-bank)</td>
<td>6</td>
<td>7</td>
<td>1%</td>
<td>4</td>
<td>4</td>
<td>1%</td>
<td>4</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>55</td>
<td>352</td>
<td>43%</td>
<td>30</td>
<td>100</td>
<td>25%</td>
<td>75</td>
<td>44%</td>
</tr>
<tr>
<td>Industry, Commerce &amp; Agribusiness</td>
<td>Agribusiness</td>
<td>15</td>
<td>101</td>
<td>12%</td>
<td>5</td>
<td>26</td>
<td>7%</td>
<td>26</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>Equity Funds</td>
<td>5</td>
<td>9</td>
<td>1%</td>
<td>4</td>
<td>6</td>
<td>1%</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>ICT</td>
<td>4</td>
<td>8</td>
<td>1%</td>
<td>2</td>
<td>5</td>
<td>1%</td>
<td>5</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>Manufacturing &amp; Services</td>
<td>4</td>
<td>18</td>
<td>2%</td>
<td>3</td>
<td>16</td>
<td>4%</td>
<td>6</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>Property and Tourism</td>
<td>3</td>
<td>20</td>
<td>2%</td>
<td>1</td>
<td>12</td>
<td>3%</td>
<td>12</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>29</td>
<td>155</td>
<td>19%</td>
<td>15</td>
<td>65</td>
<td>16%</td>
<td>51</td>
<td>29%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Municipal &amp; Env Inf</td>
<td>8</td>
<td>66</td>
<td>8%</td>
<td>7</td>
<td>44</td>
<td>11%</td>
<td>10</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Transport</td>
<td>9</td>
<td>199</td>
<td>24%</td>
<td>4</td>
<td>163</td>
<td>41%</td>
<td>28</td>
<td>16%</td>
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<tr>
<td></td>
<td></td>
<td>17</td>
<td>265</td>
<td>32%</td>
<td>11</td>
<td>207</td>
<td>52%</td>
<td>38</td>
<td>22%</td>
</tr>
<tr>
<td>Summary</td>
<td></td>
<td>105</td>
<td>818</td>
<td>100%</td>
<td>58</td>
<td>394</td>
<td>100%</td>
<td>172</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 2. Portfolio Growth in Moldova

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Cumulative Business Volume (NCBV)</strong></td>
<td>548.7</td>
<td>633.4</td>
<td>733.1</td>
<td>818.0</td>
</tr>
<tr>
<td><strong>TFP NCBV</strong></td>
<td>96.8</td>
<td>121.7</td>
<td>137.7</td>
<td>145.2</td>
</tr>
<tr>
<td><strong>NCBV Number of operations</strong></td>
<td>82</td>
<td>85</td>
<td>96</td>
<td>105</td>
</tr>
<tr>
<td><strong>Portfolio</strong></td>
<td>284.0</td>
<td>308.2</td>
<td>364.4</td>
<td>394.3</td>
</tr>
<tr>
<td><strong>Portfolio number of operations</strong></td>
<td>50</td>
<td>45</td>
<td>54</td>
<td>58</td>
</tr>
<tr>
<td><strong>Operating Assets</strong></td>
<td>156.0</td>
<td>170.0</td>
<td>169.6</td>
<td>172.0</td>
</tr>
<tr>
<td>% Undrawn excl. Guarantees</td>
<td>44%</td>
<td>43%</td>
<td>53%</td>
<td>56%</td>
</tr>
<tr>
<td><strong>Annual Business Volume</strong></td>
<td>97.2</td>
<td>69.3</td>
<td>101.8</td>
<td>128.5</td>
</tr>
<tr>
<td><strong>Annual number of operations</strong></td>
<td>13</td>
<td>8</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td><strong>Annual Disbursements</strong></td>
<td>66.1</td>
<td>46.4</td>
<td>28.8</td>
<td>62.6</td>
</tr>
<tr>
<td><strong>Annual Cancellations</strong></td>
<td>2.3</td>
<td>8.2</td>
<td>10.3</td>
<td>22.0</td>
</tr>
<tr>
<td><strong>Pipeline Stock - Reported Rate</strong></td>
<td>78.7</td>
<td>108.1</td>
<td>70.6</td>
<td>176.9</td>
</tr>
<tr>
<td><strong>Private Sector Share (% Portfolio)</strong></td>
<td>79%</td>
<td>70%</td>
<td>63%</td>
<td>47%</td>
</tr>
<tr>
<td><strong>Non Sovereign Share (% Portfolio)</strong></td>
<td>79%</td>
<td>73%</td>
<td>67%</td>
<td>54%</td>
</tr>
<tr>
<td><strong>Equity Share (% Portfolio)</strong></td>
<td>10%</td>
<td>7%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Portfolio ratio (5-year rolling basis)</strong></td>
<td>71%</td>
<td>65%</td>
<td>64%</td>
<td>59%</td>
</tr>
</tbody>
</table>

**Portfolio ratio**

The private/public portfolio ratio in Moldova calculated on a 5-year rolling basis was 59 per cent private at end-December 2013. Given Moldova’s stage of development, private sector projects tend to be significantly smaller than public sector projects, with an average project size of EUR 4 million in the private sector as opposed to EUR 19 million in the public sector (based on the project portfolio).

The corporate sector in Moldova is represented by a large number of fairly small companies, thus the Bank’s increased focus on the private sector will manifest itself through the increasing number of small projects and the deployment of alternative financing mechanisms other than direct financing (risk-sharing or co-financing frameworks with local banks, although with certain limitations given the concerns regarding ultimate beneficiary of locally owned banks).

There remain significant transition challenges and investment needs in the public sector in Moldova, particularly in the areas of transport infrastructure and cross-border interconnections. Due to the large individual project size of the few planned operations in the public sector, the portfolio ratio is likely to remain below the target of 60 per cent private for some time.

**1.2. Implementation of the previous Country Strategy**

The Bank’s priorities in the 2010 Country Strategy were rehabilitation and modernisation of infrastructure; energy efficiency; supporting the entry and expansion of export-oriented enterprises as well as restructuring and growth of existing companies; modernisation and deepening of the financial sector, including by strengthening the shareholding structures and operational management; and support of
local currency lending. The 2010 Strategy also emphasised the importance of policy dialogue on the business climate and scaling up of Small Business Support assistance.

Projects with financial institutions, particularly the banking sector, were an important pillar of the Bank’s operations. Key achievements in this sector since 2010 have included the introduction of energy efficiency loan frameworks for both the corporate and residential sectors: MoSEFF I (EUR 20m) launched December 2010; MoSEFF II (EUR 22m) launched February 2011; and MoREEFF (EUR 35m) launched in October 2012. In addition, at the beginning of 2013 a new EUR 80m Multi-product Framework focussed on SMEs was approved in order to enhance SME access to financing through partner banks.

Notwithstanding these results, throughout the previous Strategy period the financial sector has continued to suffer from serious problems related to shareholder transparency and corporate governance, including raiding of locally owned banks by non-transparent groups. Under EBRD’s leadership and in close cooperation with other IFI’s and the EU, the Bank has continued to pursue improvements in corporate governance by providing technical assistance to the National Bank of Moldova to streamline the procedures for shareholding registration by commercial banks and to improve transparency of ownership in the banking sector, and has taken partially successful actions against un-transparent change of ownership of large commercial banks of significant stakes to undisclosed ultimate beneficiaries.

Key lessons for the banking sector learned during the previous Strategy period include: (1) as the Moldovan banking sector remains underdeveloped and does not provide a range of new and innovative products, the Bank should continue to diversify the range of products available to the local banks and develop products and improve business practices of local banks; (2) corporate and residential borrowers remain underserved as IFIs remain the only source of long-term funding for the banking system: it is therefore necessary to further leverage the banking platform to provide access to financing for the real economy, including SMEs; (3) it is necessary to continue policy dialogue on shareholder transparency and corporate governance with reinforced operational involvement and investment in selected individual banks; (4) the non-banking sector is at a nascent stage, thus the Bank should support and encourage its development, notably local capital markets.

In the corporate sector, the Bank faces a number of challenges, including lack of diversification of the economy, dependence on primary agriculture, and the relatively small size of market participants. Often larger companies are highly leveraged, while SMEs suffer from weak balance sheets, poor organisational structures and business practices. The key impediments for development in the corporate sector and attraction of foreign investment in the country remain the high levels of corruption and significant administrative barriers.

Key lessons learned from the period in the corporate sector: (1) long-term and more sophisticated financing is still difficult to secure from local banks, so it is necessary for EBRD to diversify its range of products to access smaller market participants by providing risk-sharing and co-financing through local partner banks; (2) as many potential borrowers do not satisfy EBRD requirements, it is important to reinforce synergies between EGP and SBS programmes and sector banking teams for the
support and preparation of potential candidates for bank financing; and (3) FDI is very low and local companies complain about business practices, which makes it important for the Bank to support improvements in the business climate through policy dialogue with the government and local authorities, including through the establishment of an Economic Council.

Throughout the previous Strategy period, the Bank has provided support to the modernisation of the country’s highways infrastructure through the Road Rehabilitation Framework III, which comprised EUR 75m financing from EBRD with an equal amount co-financed by EIB and supported by NIF grants. This project has delivered transition impact through reforms of road maintenance funding, increased involvement of the private sector in the road works through open competitive tenders and implementation of the road maintenance system reform. The new Road Rehabilitation Framework IV for EUR 300m co-financed in equal parts with EIB and supported by an NIF grant was signed in June 2013. The Bank has also financed the rehabilitation of major streets in Chisinau, building new central pedestrian areas and upgrading infrastructure and street lighting based on modern energy-efficient LED technology. The Bank provided EUR 11.7 million financing for this purpose, including a EUR 10.3 million loan and EUR 1.4 million grant from the Green Energy Special Fund administered by EBRD.

The Bank has supported Moldova’s marine transport infrastructure by extending finance to the Giurgiulesti port on the Danube. This financing project of EUR 10.6 million, approved in 2012, will help implement a major programme to support the increasing demand for river and maritime transhipment services and will improve transport connection with the EU. The Bank also provided support to the country’s energy infrastructure by extending a long-term loan of USD 20 million to Moldelectrica for the rehabilitation of key power transmission assets, and financed two municipal transport projects in the cities of Chisinau and Balti for the renewal of their trolleybus fleets.

Key lessons learned in the infrastructure sector include: (1) with increasing investments in infrastructure, mostly financed from external sources, Moldova is facing implementation capacity constraints. Therefore, it will be necessary to continue providing implementation support to the government and ensure professional supervision is in place for its projects; (2) the borrowing capacity of municipalities is very low: the Bank should look for opportunities to support municipal companies that have better credit risk and repayment capacity without municipal guarantees (or with temporary ones), while promoting tariff reform.

1.3. Transition impact of the Bank’s portfolio

The Bank has addressed a number of transition objectives identified in the Strategy through its activities in Moldova in 2010-2013. Support for financial sector development by expanding the range and reach of new financial products, including energy efficiency investments, was identified as one of the main orientations of the last Strategy. Assisting rehabilitation and modernisation of infrastructure and energy, with associated capacity building through technical assistance, were also among the strategic directions. Finally, the last Strategy committed the Bank to support the entry and expansion of export-oriented enterprises, and restructuring and growth of existing
companies, through projects in the corporate sector. In line with these strategic priorities, three-quarters of the Bank’s new signings were extended to the country’s financial institutions, half of which targeted energy efficiency financing to the residential sector of Moldova. The remaining projects signed during the last Strategy period were in the transport and power and energy sectors.

Figure 1. Transition objectives (share of total) in Moldova, Dec 2010 – May 2013

Reflecting the strategic priorities and sector distribution of these new projects, most operations in Moldova targeted expansion of financial products to underserved areas, and transfer of skills necessary to operationalise these new products (around two-thirds of new signings address at least one of these transition objectives). Over forty per cent of projects signed in Moldova in 2010-2013 also addressed potential demonstration effect of introducing new products to the market, in particular energy efficiency investments in the residential sector.

The Bank assesses projects’ potential impact of addressing identified transition challenges. All new operations signed in Moldova from December 2010 to May 2013 were assessed as having Good transition impact potential.1 This is well above the institutional target of at least 80 per cent of projects to be rated Good or better, established to ensure high quality-at-entry of the Bank’s operations from the transition impact perspective.

The transition performance of the Moldova portfolio is generally on track. Out of 25 operations under implementation in the active portfolio at end-May 2013, six have already largely achieved their envisaged transition impact potential.2 This includes successful implementation of four MSME and leasing support projects with the country’s financial institutions, the expansion of products to underserved areas and the provision of associated technical assistance, as well as successful delivery of electricity and road rehabilitation programmes. 19 operations in the active portfolio

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1 See [http://www.ebrd.com/pages/research/economics/transition.shtml](http://www.ebrd.com/pages/research/economics/transition.shtml) for transition impact assessment and monitoring methodology
2 i.e. All active operations more than 6 months since signing and are monitored for their transition impact at least once
are currently assessed as on track to achieving their envisaged transition objectives, including the residential energy efficiency financing projects mentioned above, which, following some initial delays, are now disbursing to the targeted sub-borrowers according to schedule.

Only one operation has not been successful in delivering expected transition impact – a senior loan to a Moldovan commercial bank. Despite partial achievement of some targets on longer maturity and disbursement outside the capital city, this project has failed to contribute to increased competition in the sector, which was the main transition objective of the project. The expected transition impact of the active Moldova portfolio, reflected numerically in the average rank at end-May 2013, stood at 4.12, better than the institutional target of 4.35 and only slightly worse than the Bank-wide portfolio (4.05).3

Seven operations in Moldova were completed (i.e., fully re-paid by clients) in the previous Strategy period. Six of these projects fully achieved their expected transition impact potential. Four of these projects were MSME support credit lines to different financial institutions in the country, where full disbursement of the lines to targeted underserved areas and technical cooperation assistance to address banks’ capacity development (including skills transfer and improvements in internal processes) have been delivered. Two other completed projects with privatised power and energy operators have been successful in delivering Excellent transition impact potential through achieving higher cash collection rates, reducing technical losses, and introducing a new tariff methodology. The remaining operation – an SME credit line – has partially achieved its expected transition impact due to crisis-induced worsening of the loan portfolio quality which may impact the sustainability of lending to small and medium-sized enterprises in future.

2. OPERATIONAL ENVIRONMENT

2.1. Political context

The ruling Alliance for European Integration (AEI) government, which had been in power for three years, was thrown into disarray in early 2013 when a major corruption scandal involving senior members of the prosecutor general’s office and political elite was brought to light. The ramifications of the scandal led to the collapse of the AEI government in March 2013 amid mutual recriminations and accusations of corruption.

A new government coalition including the three same parties was formed in late-May, with little change to the composition of the Cabinet. The premiership has been passed to former Foreign Minister Iurie Leancă, who has outlined an ambitious pro-European reform programme. This made it possible to initial an Association Agreement and accompanying Deep and Comprehensive Free Trade Area with the European Union at the Vilnius Summit of the Eastern Partnership in November 2013. However, reforms to public governance, and in particular the strengthening of the rule of law and

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3 The rank is a combination of the transition impact potential rating and risks to transition impact. The expected transition of each operation is usually monitored once a year and is ranked numerically from 1 to 8, with 1 to 3 indicating mostly realised impact, 3 to 6 – generally on track to achieve transition objectives, and 7 to 8 – minimum transition impact achieved or excessive risks.
reforming the judiciary, have lagged behind the government’s stated ambitions to adopt European values and ensure rapid approximation with EU norms.

There has been little progress with regard to the long-‘frozen’ Transnistria conflict in recent years. The Moldovan government has continued to pursue its strategy of gradual normalisation of social and economic relations while aiming to make political association more attractive to the people and leaders of the breakaway region by securing better access to European markets and facilitating visa-free travel to the EU. The rise to power of a younger leader in Transnistria may lead to progress, although concrete steps toward a political settlement have been limited. Major hurdles remain with regard to the settlement of the massive debts accrued by the breakaway region, particularly to Russia’s Gazprom, on which there has been little formal discussion to date.

2.2. Macroeconomic context

Following the 2008-2009 crisis, the Moldovan economy expanded strongly in 2010-2011 supported by government reforms. However, in 2012 GDP declined by 0.7 per cent in response to the weakening external demand in the EU and unfavourable weather conditions. In the first nine months of 2013 real output rebounded by 8.0 per cent year-on-year supported by growing remittances, recovery of industrial exports and agricultural production. Remittances, which had fallen to 21 per cent of GDP in 2009 from their pre-crisis level of more than 30 per cent, have recovered to 24 per cent of GDP in the middle of 2013.

Inflation has remained below its recent peak of 9 per cent in 2011 and within the central bank’s target range of 3.5-6.5 per cent. This allowed the National Bank of Moldova (NBM) to reduce the policy rate by 650 basis points since October 2011 to 3.5 per cent in September 2013. The NBM’s adherence to a floating rate regime and inflation targeting will allow the central bank to conduct an independent and flexible monetary policy, continue keeping inflation in check and anchoring inflation expectations, which will contribute to overall macroeconomic stability.

The current account deficit has improved markedly in the last years from more than 11 per cent of GDP in 2011 to nearly 7 per cent in the first half of 2013. Ample financial inflows including from IFIs allowed the central bank to accumulate foreign reserves totalling almost 5 months of imports. External debt is high at 85 per cent of GDP, but refinancing risks are manageable. The IMF-supported programme, initiated in 2010, expired in April 2013 without final review. While the arrangement achieved its main objective of stabilising the economy after the 2009 crisis, several policy measures adopted during the period of political instability in the spring of 2013 have become a source of risk, in particular, the proposed introduction of a flat tax in the agricultural sector. The banking sector remains generally stable, with the NPL ratio declining to 12.1 per cent of gross loans in November 2013 from 14.5 per cent in the previous year. However, high dollarisation of the financial system continues to expose the sector to risks related to devaluation or capital flow reversal. The budget deficit has remained contained at around 1.5 per cent of GDP in the first half of 2013 and general government debt has stayed low with few immediate rollover risks.
In the short run, the Moldovan economy will continue to depend on the developments in the EU and Russia, the major source for remittances and exports demand. Exports, which are still dominated by low-value added agriculture and textiles, and corresponding industries will be affected by volatile commodity prices. The country’s longer term prospects hinge on the ability to create conditions for investment-led growth. To increase incomes from the current low level, private sector investments into manufacturing industry will need to increase substantially along with the already expanding access to various markets. The government will need to persevere with implementation of institutional reforms, in particular, to ensure independent and impartial judiciary, reduce corruption and further improve tax and customs administration.

2.3. Structural reform context

Governance in the financial sector suffered from a number of challenges. Following the contested bank take-over in 2011, legislation was amended to strengthen governance of financial institutions and increase transparency of bank ownership. However, faced with strong political resistance, the authorities have been unable to enforce effectively the legislation. In the beginning of 2013, transfer of ownership of a significant cumulative stake in Moldova Agroindbank (MAIB), the country’s largest bank, took place without prior written consent of the National Bank of Moldova (NBM) as required by the law. In September 2013, the state effectively transferred control of fourth largest Banca de Economii (BEM) to a little known private company through an untransparent recapitalisation process. Furthermore, in October 2013 the Constitutional Court ruled that the decisions of the NBM, with the exception of licensing, can be contested and overturned by any court in the country.

Moldova has made important steps toward further integration to the EU. In June 2013, the authorities concluded the technical part of the negotiations on the Association Agreement and creation of a Deep and Comprehensive Free Trade Area (DCFTA), which is expected to bolster trade between Moldova and the EU, improve competition and the business environment, improve quality and safety standards and attract new foreign investment. The Association Agreement and DCFTA were initialled in late-November 2013, and signing and entry into force are planned for 2014.

In July 2013, the governments of Moldova and Romania agreed on a starting date for the long-awaited construction of the Iasi-Ungheni gas pipeline that will connect the two countries’ gas transportation systems and promote energy diversification for Moldova, which is now fully dependent on Russian supplies. The Austrian-Romanian consortium, selected through a tender, started construction works in August 2013 with completion expected in April 2014. Moreover, integration of both countries’ electricity grids is on-going. Significant efforts to improve road, port and railway infrastructure, supported by the IFIs, should reduce the cost of international trade and help Moldova capitalise on its transit potential.

Over the past three years the central bank has continued its efforts to modernise monetary policy and financial stability frameworks. Since the 2008-09 crisis, the central bank has maintained greater exchange rate flexibility and, in 2010, switched to explicit inflation targeting, setting the medium-term inflation target at five per cent.
Education sector reform was initiated in 2011 to help improve labour force quality while reducing fiscal outlays. During the course of 2013 the pace of reform slowed, but has since picked up again with significant support from the EU.

**Figure 2. EBRD transition indicators for Moldova**


### 2.4. Business environment

The authorities have made efforts to improve the business climate, although the pace of reforms has slowed during recent political crisis. Reforms to cut red tape, improve competitiveness, and stimulate trade were carried out in 2011-2012. The authorities have been implementing a ‘Regulatory Guillotine 2’ programme to systematically reduce unnecessary regulations and improve legislation. According to the World Bank Doing Business Ranking Index, Moldova has introduced 13 new reforms in the last 5 years, and its ranking has advanced from place 94 to place 78 (out of 185 countries) over the same period. The authorities eased conditions for starting a business and its credit information system, made enforcements of court judgments more efficient, amended the insolvency law to grant priority to secured creditors and improved tax compliance by encouraging electronic tax filings and payments. The new government, created in May 2013, declared a strong commitment to accelerating the pace of reforms and has established committees charged with exploring reforms to further cut red tape, decrease the regulatory burden, reduce corruption and stimulate competition.

Corruption in the country has remained one of the main obstacles to development. According to the Transparency International’s Corruption Perceptions Index Moldova ranked 102nd in 2013 out of 177 countries, dropping from 89th place four years earlier. According to the 2013 Economic Freedom Index Moldova ranked 110th in the world and 39th out of 43 in the Europe region, which highlighted the need to further reduce state control over the economy. The World Economic Forum’s Global Competitiveness index placed Moldova 89th among 148 countries, stressing corruption and political instability among the top obstacles for doing business in the...
Poor state of road infrastructure (148th place out of 148), low independence of judiciary and inability of the country to retain talent (both at 145th place out of 148) are among the factors that need improvement.

2.5. Social context

Moldova is a country characterised by volatile economic growth and high levels of social exclusion and income disparities. Official unemployment figures are low, at 5 per cent in the middle of 2013. Unemployment is higher in urban areas than in rural areas, at 6.4 and 3.3 per cent, respectively. However, these low official figures do not account for the low labour force participation rate, which fell from 60 per cent to 40 per cent between 2000 and 2012 or the substantial size of the informal sector in the economy, which is estimated to employ up to 30 per cent of the working age population. This is compounded by large labour force migration rates, with low incomes, insufficient internal demand for labour and limited job security forcing around 350,000 people, or 10 per cent of the total population, to migrate abroad. Unofficial migrant figures are a lot higher, ranging between 0.5 and 1 million people. Most of these migrants are young men from rural areas who do not have higher education.

Whilst the written laws in Moldova do not overtly disadvantage women, they still experience a 25 per cent pay gap compared to men and are only half as likely to own a bank account that is used for business purposes than men. Access to health care is also slightly worse for women than for men. Maternal mortality levels have fluctuated widely, reaching a low of 16 per 100,000 births in 2006 and a high of 44.5 maternal deaths per 100,000 live births in 2010. This is almost double the average for countries of the CIS region (20 per 100,000) and more than seven times the average for countries of the European Union, which was 6.1 in 2010.

The education system in Moldova is characterised by a shortage of teachers, teaching materials and a lack of centralised quality control, resulting in PISA (Programme for International Student Assessment) scores that are well below the OECD average, particularly for reading skills, but comparable to other countries in the region. This creates substantial disadvantages for young people seeking to find employment, not only within Moldova but also abroad.

The GINI index by consumption, at 0.33, is on a par with Poland. The proportion of the population living in poverty has decreased from 30.2 per cent to 16.6 per cent between 2006 and 2012. However, there are large and persistent regional and urban/rural disparities in Moldova, particularly in relation to access to employment, education and services such as health care, clean water or central heating. Rural inhabitants face a risk of poverty that is three times higher than that for urban residents, with almost 80 per cent of all poor people living in rural areas. The gap between average incomes in cities versus villages grew from 25 per cent in 2006-2007 to 33 per cent in 2011-2012.

According to the assessment of gender gaps of the Strategic Gender Initiative (SGI), Moldova is amongst those countries with small and medium gender gaps except in the area of labour practices. Nevertheless, as opportunities emerge, projects with a gender component may be considered in Moldova. The Bank will endeavour to work with its
clients in Moldova, where appropriate, to encourage women entrepreneurs’ access to finance, support women’s access to skills and employment opportunities and to ensure that women, as well as men, benefit equally from the Bank’s investments.

2.6. Legal context

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. In recent years Moldova adopted several new important laws and regulations, including a new bankruptcy law, new competition law, legislation on payment services and electronic money, regulation on related party transactions and disclosure of beneficial ownership in banks.

However an analysis of key commercial laws that directly contribute to creating a favourable investment climate in Moldova still shows that even relatively good laws suffer from serious implementation problems. A weak judiciary and complex enforcement procedures further undermine investors’ confidence. Even though certain measures in tackling corruption and improving efficiency in judiciary, such as the liquidation of the economic courts in 2011, have been undertaken, corruption and political interference still remain a concern in the judicial sector of Moldova.

Recent reform efforts also commenced in respect of promotion of alternative dispute resolution procedures with commercial mediation piloted in courts in Chisinau and Balti with EBRD technical support. Going forward, Moldova should continue to bring its commercial laws in line with international standards and make those laws fully effective, particularly by strengthening the court system, tackling corruption and implementing other measures to strengthen the rule of law.

For the Bank's assessment of selected legal areas please refer to Annex 3.

2.7. Energy efficiency and climate change context

Moldova is one of the most energy-dependent of all EBRD’s countries of operations as it imports over 90 per cent of its oil, gas and coal from neighbouring countries. Energy intensity remains high by European standards; Moldova use of energy per unit of GDP is seven times higher than the EU 27 average and almost three times that of Romania. Given the lack of domestic primary energy resources, Moldova is particularly dependent on energy imports from Russia and Ukraine, spending more than 30% of its import budget on energy. The high carbon intensity is resulted by the high energy dependency, waste of energy at the end user level as well as the obsolete infrastructure. In addition, the residential sector of Moldova is the largest energy user with about 40% share of the national final energy consumption and around 70% of residential energy consumption related to space heating.

Therefore, there is a substantial potential for energy efficiency (EE) improvements and Renewable Energy (RE) development in Moldova. By assisting with investments, the EBRD helps Moldova to improve the national energy balance, reduce energy import expenditures and aim for more sustainable energy use. However, market barriers to investing in sustainable energy projects, both in the industrial and residential sector, are still high in Moldova at all levels. At the legal/regulatory level
additional reforms are needed to establish the preconditions necessary for the
development of a well-functioning sustainable energy market. Some of these barriers
are common for both industrial and residential sector, while some are more sector
specific.

In 2011, the Moldovan Agency for Energy Efficiency was established and is
subordinated to the Moldovan Ministry of Economy. The main mandate of the
Agency is to ensure the accomplishment of the objectives from the National
Programme on improvement of the energy efficiency and supervise the evolution of
EE and RE in the country. The Bank is engaged in policy dialogue with the Agency,
the Moldovan Government as well as the international donor community to assist in
creating an enabling regulatory environment for sustainable energy projects across all
sectors.

Moldova is also projected to be impacted by climate change, as set out in the Second
National Communication to the UNFCCC (2009). Higher mean temperatures and
increasingly variable precipitation are expected to result in increased water and heat
stress, and reduced surface runoff, especially during the summer. The influence of
climate change on the hydrology of the large transboundary rivers that run through
Moldova (e.g. Dniester, Prut) is expected to increase the risks of seasonal flooding.

3. STRATEGIC ORIENTATIONS

Moldova is an early transition country with significant transition challenges across
virtually all sectors of the economy. In the next Strategy period the Bank will focus on
addressing the following strategic priorities:

• Creating the enabling conditions for private sector development. The
  Moldovan economy still faces significant challenges deriving from a weak
  business environment and poor corporate governance, which must be strengthened
  in order to increase competitiveness and attract more investment. Governance and
  transparency in the banking sector are particular concerns which must be
  addressed to develop local capacity and create a platform for attracting
  investment.

• Promoting European standards and regional integration. Adopting European
  standards is essential to enhance the competitiveness of Moldova’s manufacturing
  and agribusiness sectors. In parallel, improving transport and communications
  links is vital to facilitate Moldova’s integration into European and wider regional
  markets. Public sector operations should target those areas that help stimulate
  sustainable growth, driven by net exports and based on productive industries, and
  do not overburden the state budget.

• Enhancing commercialisation and sustainability of municipal enterprises.
  Moldova’s municipal utilities suffer from decades of neglect. Urgently needed
capital investments are deterred by the below cost recovery levels of tariffs. The
Bank will therefore focus on encouraging commercialisation and regulatory
reform, including tariff reform, to strengthen the sustainability of municipal
transport, water and district heating providers.

4 http://unfccc.int/resource/docs/nate/mdane2.pdf
3.1. Creating the enabling conditions for private sector development

Key challenges

- While Moldova’s investment climate has improved in recent years, administrative barriers to enterprise entry and exit and requirements for obtaining various permits remain high. Competition policy has been improved, but it is yet to be consistently applied.
- Corruption remains one of the most significant impediments for domestic companies. Institutional capacity, particularly in the judiciary, remains low, and law enforcement is weak.
- Attracting foreign direct investment is crucial for Moldovan economy particularly on the background of the trade balance deficit, yet it remains very low as the result of weaknesses in the investment climate. The economy is chiefly driven by remittances-financed consumption of mostly imported goods, and primary agriculture, with very limited manufacturing industries. This is combined with obsolete production methods, aging infrastructure and high labour migration.
- Besides existing barriers and low access to finance, most entrepreneurs lack management skills and access to best practices to develop their businesses. The MSME support infrastructure requires future development. Existing business advisory services are concentrated in Chisinau. Local consultants lack specialisation and international market insights and standards.
- Processing industries are largely focused on tolling services requiring re-export rather than developing own label products. It is thus necessary to increase the share of value-added products in the export mix.
- The key challenge for the Moldovan banking sector is the lack of transparency in beneficial ownership and the inability of the National Bank to ensure effective governance. The high degree of ‘offshoring’ of the shareholding structures of domestic banks leads to low shareholder transparency system-wide and, as a consequence, deficiencies in corporate governance, business practices and the distortion of competition.
- The Moldovan banking sector is underdeveloped both in products and risk management practices due to lack of competition and limited presence of foreign-owned banks in the system. As a result it does not provide a range of new products and is not implementing advanced risk management practices. Funding of Moldovan banks is deposit-based with IFIs still the only source of long-term funding. This imposes limitations for financing of longer-term investment projects of sub-borrowers. Moreover, the banking sector accounts for over 85 per cent of the total financial market, leaving little space for the nascent non-banking financial sector as an alternative source of financing.

Operational response

The Bank will support measures to improve the business environment, both through investment projects which help to attract foreign direct investors, as well as through its ongoing policy dialogue with the Moldovan authorities on sector-specific reforms (see below). Improving the investment climate will have beneficial effects for the whole of the Moldovan economy, by strengthening its competitiveness and resilience to external shocks and facilitating faster integration with European markets.
The Bank will seek opportunities to invest in quality local companies, as well as encourage and support foreign investors, focusing on expansion of export-oriented enterprises and restructuring and growth of existing companies. Opportunities for more creative product offer, such as quasi-equity, will be considered.

To enhance the competitiveness of the MSME sector, the Bank will combine advice at the enterprise level with the facilitation of access to finance as well as business advisory sector development through its SBS and EGP operations. Planned operations will strengthen enterprise performance in areas such as strategy, organisational development, information and communication technology, marketing and quality management within all sectors of local economy. The Bank will also implement ETC Accounting Improvement Programme (AIP) with the objective of raising enterprise financial management practices and standards in view of potential investments. The Bank will also actively promote rural development, energy efficiency and female entrepreneurship.

The Bank through SBS and EGP will continue to contribute to the development of a viable and conducive environment for small and medium sized businesses by facilitating public/private dialogue and supporting local institutional development.

In response to the recent unfavourable developments in the banking sector affecting the shareholding structure of locally-owned banks, the Bank will refrain from further active operations with those entities for the time being. However, this will significantly limit the Bank’s ability to reach MSME clients as foreign-owned banks’ regional networks are less extensive than those of locally-owned banks. Existing exposures will be carefully monitored to protect the Bank’s assets and safeguard their integrity. The Bank may reconsider further involvement with locally-owned banks if and when tangible improvements in the shareholding structures and the overall corporate governance have been achieved. The Bank will continue to be engaged with foreign-owned banks.

The Government recently demonstrated a more robust response to the threat presented by significant non-transparent ownership in local banks. The actions taken are in response to the Bank’s policy dialogue and effective coordination with other stakeholders including other IFIs operating in the sector. The Bank will continue its policy dialogue with the Moldovan authorities regarding the corporate governance and transparency of financial institutions. In addition, the Bank will work with other major IFIs present in Moldova to promote a coordinated approach to technical assistance to the Moldovan authorities addressing longer term reforms and institutional capacity building among the judiciary, regulatory bodies and other relevant institutions.

Although the current limitation of the Bank’s involvement in the banking sector will pose significant impediments to its outreach to local companies, particularly MSMEs, the Bank will seek to counteract this by introducing risk-sharing and co-financing frameworks implemented with foreign banks in order to leverage those banks’ access to the corporate sector.
The Bank will aim to facilitate SME access to finance through dedicated credit lines to foreign-owned banks, as well as further promoting the Trade Facilitation Programme to support export-import activities of local companies with particular emphasis on productive industries which contribute to net exports.

To the extent possible, the Bank will seek to expand access to local currency finance for enterprises with revenues denominated in lei and help develop local currency capital markets in line with the Bank’s strategic initiative.

**Policy dialogue and TC**

The Bank will step up its policy dialogue on the investment climate through its support for the recently established Economic Council to function as the platform for the dialogue between the private sector, IFIs and the Government. In the banking sector in particular, EBRD will continue its policy dialogue with the NBM, NCFM and the Government with regards to the recent non-transparent change of ownership at locally owned banks. This involves close cooperation with the EU, other IFIs and the diplomatic community in the country.

EBRD will explore opportunities for further policy dialogue jointly with other IFIs intended to optimise the regulatory framework and scope of responsibilities of the NBM, potentially supported by TC in relevant areas such as improvements in primary legislation and building NBM capacity, and will continue implementation of TC aiming to build local banks' capacity and product development targeted at serving the remittance recipients.

The Bank will also provide TC support to the authorities to improve the Law on Public Procurement in context of Moldova’s WTO obligations. In the corporate sector, TC and grant co-financing will provide investment incentives and high quality consultancy support for technical implementation of projects, choice of suppliers and equipment. The Bank will continue providing support to local SMEs through its SBS and EGP programmes.

EBRD will provide technical assistance, in partnership with the World Bank Competition Policy Team, to develop the skills and enforcement capabilities of the Competition Council, with a focus on one or more of the following: developing implementation guidelines for market investigation tools and support related training modules; supporting advocacy initiatives aimed at promoting the revision of existing sectoral legislation and regulations whose objectives contrast with those of the recently adopted Competition law, in particular in regulated sectors; and support training for the Competition Council in the areas of public procurement and competition, as well as advocacy initiatives aimed at fostering cooperation between the Competition Council and the public procurement agency.

3.2. **Promoting European standards and regional integration**

**Key challenges**

Moldova has a small domestic market, which makes future growth dependent on the country’s ability to integrate economically in the broadly-defined European region,
first and foremost through developing higher value-added exports. In turn, that requires higher production and quality standards than those currently applied. Developing links to neighbouring countries, as well as the internal transport infrastructure needed to connect domestic producers and markets, will require significant investment. Key challenges in this area include:

- The need to rehabilitate and commercialise transport infrastructure. This requires maintenance and reconstruction of national roads, including the establishment of a second generation road fund and introduction of performance-based contracts; as well as the operational and financial restructuring of the national railways, strengthening transparency and independence from the government, tariff reform and introduction of competition in certain segments. The recent decision to include railways in the list of public enterprises allowed for privatisation is a first step in reforming the sector. Operations and policy-setting functions are not separated, with all core railway businesses operated by a single entity.
- Moldova is highly dependent on gas and energy imports. It has a single gas supplier which has majority ownership of the supply company MoldovaGas and controls the gas distribution system. As a member of the Energy Community Moldova is committed to implement the 2nd and 3rd Energy Packages to increase energy security through integration with ENTSO-E, ensure alternative supplies of natural gas, and ultimately join the European Network of Transmission Operators for gas (ENTSO-G).
- To encourage energy conservation in both the residential and corporate sectors it is necessary to upgrade primary and secondary legislation for energy efficiency in buildings and housing codes to provide the legal platform for collective borrowers in the residential sector to act as counterparts in the banking system as well as to increase awareness and build capacity with local banks and borrowers.
- The telecommunications sector is competitive in some segments (e.g., mobile) but less so in the landline segment. It is necessary to further develop and better enforce the regulatory framework and, ideally, privatise the fixed line incumbent to mitigate the conflict of interest for the government as owner and regulator of the company. Furthermore, according to European regulations, the government is under obligation to implement Digital Switch Over till 2015.

Operational response

Over the next Strategy period the Bank will continue to finance improvements in the country’s infrastructure, prioritising those areas that help stimulate sustainable growth driven by net exports and based on productive industries. Financing of public sector operations will be scrutinised for its impact on the state budget.

The Bank will continue financing the rehabilitation of key national transport infrastructure as prioritised by the government’s draft Transport and Logistics Strategy for 2013-2032, which was approved in late-2013. These activities will include the implementation of the financing package for rehabilitation and maintenance of national roads.

The Bank will support reform of the country’s railways, including the ongoing harmonisation of Moldova’s railway transport system and legislation with the EU
standards, institutional restructuring of the national railways, and financing of investments in rolling stock rehabilitation and railway infrastructure.

The Bank will contribute to strengthening energy security and efficiency in line with the objectives set in Moldova’s new 2030 Energy Strategy, adopted in 2013. The new Energy Strategy aims to create a more efficient energy sector through modernisation of infrastructure and gradual integration into the EU energy market. The Bank will look for opportunities to provide financing support for rehabilitation and development of power transmission networks with a view to the prospective integration of Moldova into ENTSO-E. The Bank will also consider financing a gas pipeline between Romania and Moldova, increasing the interconnections with the EU, with the aim of lowering Moldova’s dependence on high priced energy and a single gas supplier.

The Bank will continue to provide financing to both corporates and residential households and homeowner’s associations for energy efficiency improvements directly and through SEFF frameworks with partner banks.

In the telecoms sector, the Bank will support Moldova’s efforts for digital switch-over and other improvements in the sector. This infrastructure investment will help Moldova to be able to broadcast national TV and radio programs through the digital network, thus making it compatible with the European broadcast networks.

**Policy dialogue and TC**

Policy dialogue, and TC to support it, will focus on assisting in the implementation of road maintenance reform and financing, greater role for the private sector, and better procurement practices. It will include privatisation support for road maintenance companies and implementation of performance based contracting for road maintenance.

The Bank will support the on-going harmonisation of Moldova’s railway transport system and legislation with EU standards, and will continue TC-supported policy dialogue to assist with restructuring of the railways company and its commercialisation, possibly to include preparation of a comprehensive restructuring action plan with the identification of clear steps and deadlines for railway sector and CFM restructuring.

Policy dialogue in the energy sector will focus on implementation of the 2030 Energy Strategy, including the 2nd and 3rd Energy Packages under Energy Community, while TC will include financing of feasibility studies for new power and gas interconnections with EU and implementation support of those projects.

In the residential sector, policy dialogue and TC will focus on providing incentives and high quality consultancy support for raising public awareness, educate both the banks and the borrowers and provide support for technical implementation of the projects. Policy Dialogue in residential sector is conducted jointly with the Ministry of Construction and Regional Development and is focused on improving the primary legislation on Energy Efficiency in Buildings with the view to bring it up to European standards, and upgrading the Housing Codes to facilitate access to financing of collective borrowers in residential sector.
Policy dialogue in the energy sector is focused on supporting the country’s energy Regulator ANRE in developing the systematic approach to renewable energy tariffs. In the SME sector, SBS will continue to implement the Energy Efficiency programme for local small enterprises to conduct energy audits.

In the telecommunications sector, the Bank will aim at supporting the local regulator with TC for capacity building in the area of procurement to strengthen their capacity for the upcoming tender for an operator of the planned digital broadcast network.

3.3. Enhancing commercialisation and sustainability of municipal enterprises

Key challenges

- Moldovan municipal infrastructure is characterised by a very low level of development, particularly outside of larger cities with such basic needs of population as access to potable water, central sewage and waste treatment not being met.
- Urban transport is decentralised, with municipally owned operators active in larger cities and private operators running relatively old fleets elsewhere. In the coming years it will be important to improve regulatory and planning capacity in the sector, restructure municipal operators and further improve financial performance and cost recovery.
- The utilities sector suffers from non-commercial tariff setting and low cost recovery. It will be necessary to improve collection rates, introduce service-oriented formal relationships between municipalities and operators as well as PPPs in the water sector where feasible.
- Other municipal infrastructure sub-sectors, such as district heating and solid waste management, remain unreformed and with severely deteriorated assets due to longstanding lack of investment.

Operational response

The Bank will continue to finance regional and municipal water infrastructure, targeting improvements in the quality of water supply in the country. Regional water and wastewater projects will target cost control issues, including through regionalisation and modernisation. Furthermore, the Bank will continue to explore opportunities to implement a PPP structure in the sector.

In the urban transport sector, the Bank will finance private sector participation, including transportation services, e-ticketing and parking in Chisinau, Balti and other cities.

The Bank will look to initiate pilot investment projects in the areas of district heating and solid waste management, with a focus on low cost solutions recognising the need to balance between cost recovery tariffs and affordability constraints.

Give that revenues of municipal enterprises are mostly in lei, to the extent possible the Bank will seek to expand their access to local currency finance.
Policy dialogue and TC

Policy dialogue on tariffs reform will focus on transfer of tariff approval function to independent regulators in order to set them in accordance with the full cost recovery principle, reducing political intervention, and implementation of public service contracts across sectors.

The Bank will work on further improvements in the municipal transport services by implementing TCs for restructuring and commercialising of municipal transport companies and e-ticketing.

3.4. Environmental and social implications of the Bank’s proposed activities

All EBRD projects are subject to the 2008 Environmental and Social Policy and Performance Requirements. The Bank works with clients to assess each project’s environmental and social impacts, risks and opportunities, and assists them in implementing the Performance Requirements, including good international practice and relevant EU standards. The commitment to EU requirements can be challenging in Early Transition Countries, particularly in the municipal sector where borrowing capacity may be limited. In the event that projects cannot be structured to meet EU environmental requirements, this will be made clear in the Bank’s information for the Board of Directors, with appropriate justification for any derogation, and in the public Project Summary Document. EBRD will work with clients, where appropriate, so that any complementary action to projects that do not meet EU environmental criteria will bring them toward fully meeting EU standards in the future. During the construction and operating phases the EBRD monitors projects against agreed commitments and standards, and the nature and frequency of monitoring is determined by the environmental and social risks associated with the investment.

Moldova faces a number of serious environmental challenges including a lack of sufficient municipal solid waste management capacity, unsustainable agricultural practices, lack of adequate forestry management, surface and groundwater pollution, and air pollution. Tackling these challenges, such as updating the vehicle fleet to reduce air pollution, protecting biodiversity and habitat loss, halting and reversing land degradation, and improving access to clean drinking water, waste water treatment and solid waste management would have significant health, environmental and economic benefits.5

In the forthcoming Strategy period the Bank will focus on addressing three strategic priorities: supporting the rehabilitation of Moldova’s infrastructure, promoting the modernisation and development of Moldova’s corporate sector and supporting Moldova’s integration into European energy markets and diversifying energy sources.

The rehabilitation of Moldova’s infrastructure is likely to include improving the national road infrastructure, investments in rolling stock and railway infrastructure, financing of regional and municipal water infrastructure to improve the quality of

5 These challenges and benefits are presented in detail in the ‘Analysis for European Neighbourhood Policy (ENP) Countries and the Russian Federation on social and economic benefits of enhanced environmental protection – Moldova Country Report’ [link].
water supply, and investments in district heating and solid waste management. As per the EBRD’s Environmental and Social Policy, such infrastructure improvements will need to be designed and constructed to meet best practice environmental and social standards, with a focus on energy and water efficiency technologies. For highway and urban transport projects, the Bank is working to promote road safety for drivers, pedestrians and other road users. Construction safety is another important consideration for the transport sector and where projects require land acquisition, EBRD requirements for resettlement and livelihood restoration will apply.

The continued implementation of the EBRD’s Environmental and Social Policy is one of the ways the EBRD will support the modernisation and development of Moldova’s corporate sector. The Policy requires clients to develop and implement best practice policies and management systems and standards in the field of environmental protection, occupational health and safety, human resource management and stakeholder engagement. Companies who practice good management in these areas have generally lower operating costs, lower staff turnover and are more attractive for foreign investors.

The EBRD aims to support Moldova’s integration into European energy markets and diversifying energy sources through the provision of financing for the rehabilitation and development of power transmission networks and gas-pipelines and investments in energy efficiency and renewable energy projects. Investments in the energy efficiency and renewable energy sectors have the potential to significantly reduce Moldova’s carbon intensity. For renewable energy projects, and particularly wind turbines, siting decisions should take account of biodiversity and habitat considerations, including avoiding or minimising impacts on protected areas and bird migratory routes. This will also apply to electricity transmission projects. Additionally for transmission projects, EBRD environmental due diligence will include an assessment of the carbon intensity of the generating source. Renewable energy and electricity transmission projects often involve land acquisition and where this is the case, the EBRD requirements for resettlement and livelihood restoration will apply. For biomass projects, EBRD will work with clients to help them understand their supply chains and promote the use of legal and sustainable fuel sources.

4. ACCESS TO FINANCE

4.1. Access to capital from commercial sources

The Moldovan financial system is heavily dominated by banks. The banking system is largely privately-owned and includes 14 banks. The only state-owned bank, Banca di Economii, was effectively privatised in September 2013 through a non-transparent recapitalisation process which resulted in the transfer of a majority stake to a local group, with the government’s stake falling to 33 per cent. The banking system is fairly concentrated, as five largest banks hold around 70 per cent of total assets and there is little competition among the banks. Banking penetration is above average compared to other countries in the region, at nearly 70 per cent of GDP, but private sector credit stands at a relatively low level, at 38 per cent of GDP. Bank loans have been concentrated in trade (38 per cent), agriculture and food industry (16 per cent) followed by real estate and construction (8 per cent). The commercial banks are
mainly deposit funded and have low proportion of deposits beyond one year, resulting in low supply of long-term funds to private sector.

There are around 60 microfinance institutions in the country and over 500 savings and credit associations (SCA). Microfinance organisations have a combined portfolio of over US$ 150 million, with almost 85 per cent of them in seven largest organisations. SCAs are engaged in short-term lending to its members. The majority of SCA (75 per cent) are operating in the rural area and benefit from access to the funds and training offered by the Rural Finance Corporation (RFC), founded under the Word Bank Group supervision as a specialised financial intermediary. As for other forms of financing, venture capital operates in the region but no national fund exists. There is a draft law on venture capital but no legal framework has been established.

Capital market in the country is not well developed. Securities’ trading concentrates in government bills and bonds, while private corporate segment is virtually absent. Total stock exchange and OTC transaction volume was near US$ 100 million in 2012 (1.4 per cent of GDP). Moldova operates pay-as-you-go pension system, and there are only 3 registered but non-operating private pension funds. Access to international capital markets is limited due to the small size of most firms and the unfavourable risk profile of the economy. Moldova is rated at B3/Stable by Moody’s.

4.2. MDB finance and collaboration with other IFIs

The Bank closely cooperates with other donors. The main areas of co-operation between the EBRD and other donors include:

- **Policy dialogue coordination**: The EBRD is an active participant in donor coordination meetings with the government, including both general donor coordination and sector specific coordination activities on i) private sector, ii) financial sector, iii) water and environment, iv) transport, and v) energy. Donor coordination on policy dialogue includes i) regular, usually monthly, sector consultative council meetings chaired by the respective Minister of the Government, ii) joint missions of donors to discuss specific sectors or projects, and iii) ad-hoc meetings as and when necessary. EBRD is also becoming an active coordinator of IFIs’ policy dialogue through setting up an Economic Council in partnership with the Government. In the energy efficiency area, the Bank is currently establishing a donor coordination initiative jointly with the Ministry of Economy.

- **Technical assistance**: The Bank is actively using significant technical assistance from the EU, bilateral donors and special funds, such as the ETC Fund and the EBRD Shareholder Fund, mainly for project preparation and implementation. The Bank also pursues donor financed legal and regulatory technical cooperation in key strategic areas, including energy efficiency, competition, telecommunications, energy regulation, and the financial sector. Additional areas, where more active involvement with donor financed technical cooperation assignments is expected during the next strategy period, include: support for municipal and energy efficiency projects through E5P fund; further engagements in energy efficiency sector through SBS team and Policy Dialogue accompanying SEFFs through
SIDA (Swedish Government); and potential deployment of ‘more-for-more’ facility from the EU, particularly in the infrastructure and municipal areas.

- **Project co-financing:** All infrastructure and energy projects undertaken by the EBRD during the past strategy period involved investment co-financing with at least one other IFI (EIB, IFC, WB). This cooperation is expected to continue during the strategy period under consideration. All infrastructure and energy projects, in particular, are prepared together with the EIB and are expected to benefit from EU Neighbourhood Investment Facility (NIF) co-financing. Although EBRD loans are not subject to the IMF concessionality requirement under the new IMF programme, affordability constraints require significant grant co-financing, particularly in the regions outside the capital.

**World Bank**

The Republic of Moldova has been a member of the World Bank Group since 1992 and the International Development Association since 1994. The World Bank Country Partnership Strategy for Moldova for 2014-2017 was approved in September 2013 and foresees total commitments of around US$140 million per annum, partly channelled through direct budgetary support. The World Bank also supports investments in modernising infrastructure and improving access to public services, as well as projects with regional or global environmental benefits. In addition to its lending operations, the World Bank Group provides a range of analytical and advisory services, complemented by investments and guarantees through Bank Group institutions (IFC and MIGA) to strengthen and expand financial and private sector growth. Three most recent areas of cooperation between EBRD and WB include the (a) WB funded and conducted feasibility study for road rehabilitation, which is serving EBRD and EIB for structuring the Road Rehabilitation Framework IV, (b) support to authorities in restructuring the Chisinau District Heating company Thermacom and (c) improvement of legislation in the regulatory area in banking sector.

**IFC**

The Republic of Moldova became a member of the IFC in 1995. The IFC has committed US$ 87 million of its own funds and arranged $25 million in syndications for projects in infrastructure, telecommunications, agribusiness, and the financial sectors. The IFC Advisory Services are active in Moldova since 1997 in the banking, textiles, food processing and agriculture sectors.

To date, the IFC provided US$10 million in debt and equity for balance sheet restructuring to Bostavan Wineries in April 2008, US$7 million SME credit line to ProCredit Bank in July 2009, US$15 million SME credit line to MAIB in August 2010, and US$12 million to private power distribution company Union Fenosa in December 2009, co-financing EBRD loan of the same amount, US$70 million equity and financing package to TransOil (also supported by EBRD US$12 million working capital facility). Furthermore IFC, EBRD and EFSE are the three IFI lenders to the largest Moldovan bank MAIB and jointly conduct policy dialogue with regards to the recent un-transparent change of ownership in the bank. The EBRD will continue to cooperate with the IFC on coordinating its support for the private sector in Moldova.
The Republic of Moldova joined the IMF in August 1992. In January 2010, the IMF Board of Directors approved a combined Extended Credit Facility/Extended Fund Facility Arrangements each running for three years with access totalling SDR 369.6 million (300 percent of quota, or US$588 million) split equally between the two facilities. The new facilities support the government economic programme, which aims to restore fiscal and external sustainability, preserve financial stability, and support growth. Under the new IMF programme, external debt ceilings do not apply to credits from international financial institutions. Key three structural benchmarks for completion of the Extended Credit Facility/Extended Fund Facility were:

- Adoption and coming in force of the New Law for Financial Institutions jointly with NBM: fulfilled, came in force on 5th April 2013
- Satisfactory resolution of the Banca di Economii bankruptcy situation: not fulfilled
- Achieving a better budgetary control: not fulfilled.

The Mission is now officially closed, but IMF is continuing to monitor the situation to be able to revert swiftly should the new Government request a new programme.

Throughout the recently expired Stand-By arrangement, the Bank has maintained continuing dialogue with the IMF colleagues regarding key reform priorities and cross-referencing authorities’ reform commitments, in particular in the difficult area of financial sector shareholder transparency and corporate governance. The EBRD closely coordinates its activities with the local IMF office as well as IMF consultation visits, with the emphasis on the coordination of support for reforms in infrastructure and energy sectors as well as support for financial sector stability and financial intermediation deepening.

4.3. Cooperation with the European Union

The EU is developing an increasingly close relationship with Moldova, going beyond co-operation to gradual economic integration and a deepening of political co-operation. Moldova is a partner country within the European Neighbourhood Policy (ENP), with a joint EU-Moldova ENP Action Plan based on the Partnership & Cooperation Agreement. Moldova is also an active participant in the EU’s Eastern Partnership programme on both multilateral and bilateral tracks, and initialled an Association Agreement with an accompanying Deep and Comprehensive Free Trade Area in November 2013.

The National Indicative Programme of the EU for the Republic of Moldova for 2011-13 set three key priority areas: good governance, rule of law and fundamental freedoms; social and human development; and trade and sustainable development. The indicative budget from the European Neighbourhood and Partnership Instrument was set at EUR 273.14 million. In addition, the EU has provided sector-specific budget support to Moldova since 2007. In 2013, the EU approved an assistance package of EUR 100 million for economic stimulation in various areas of the real economy as well as for key sectoral reforms (in the vocational and educational
training and visa liberalisation sectors) and government institutional capacity building. In the framework of the Eastern Partnership Integration and Cooperation (EaPIC) programme, which provides additional financial assistance to Eastern Partnership countries that deliver on reforms for deep democracy and respect of human rights, Moldova received an additional EUR 28 million in 2012 and EUR 35 million in 2013. This rewarding mechanism is in line with the principles of mutual accountability and differentiation introduced in the 2011 review of the European Neighbourhood Policy: “Increased EU support to its neighbours is conditional. It will depend on progress in building and consolidating democracy and respect for the rule of law. The more and the faster a country progresses in its internal reforms, the more support it will get from the EU.”

The cooperation between the EBRD and EU in Moldova is threefold, including close cooperation in policy dialogue, including joint missions on specific sectors such as the energy and transport, and discussion of policy matrices related to relevant sector-budget support programmes; technical assistance for specific projects, with the EU providing over one third of total TC commitments to date; and investment co-financing using the EU Neighbourhood Investment Facility (NIF).

**European Investment Bank**

The EIB has a mandate to provide financing to Moldova under the Framework Agreement signed in November 2006. Moldova is eligible to receive financing for projects of key common interest in the areas of transport, energy, telecommunications and environmental infrastructure. Since 2009 the EIB has also a mandate to finance SMEs in Moldova.

EBRD enjoys a very productive cooperation with EIB in Moldova. Nearly all significant Moldovan infrastructural projects of key economic relevance for Republic of Moldova are co-financed by EBRD and EIB on 50:50 basis and supported by the Neighbourhood Investment Fund of European Commission. Until end of August 2013, the EIB has signed several projects in Moldova, both co-financed by the EBRD and the EU NIF:

- In June 2013, the EBRD and EIB signed a Road Rehabilitation Framework IV of EUR 300 million with the Republic of Moldova, to support the rehabilitation of roads linking the capital Chisinau to the EU border. This is the largest project in Moldova to date.
- In February 2012 the EIB and EBRD have jointly provided a loan of EUR 30 million for the rehabilitation energy transmission lines to the state-owned company Moldelectrica.
- Also in 2012, EIB and EBRD have jointly realised the first municipal project outside of municipality of Chisinau – Balti municipal transport. A 3m EUR loan was provided for renewal of municipal trolleybus fleet.
- In December 2011, have jointly provided a loan of EUR 20 million for rehabilitation of municipal Roads in Chisinau.

At present, the EIB is considering several new infrastructure projects in energy, transport, telecoms and municipal infrastructure sectors, all co-financed by the EBRD, which is the lead lender, and supported by grants of the EU NIF.
ANNEX 1 – POLITICAL ASSESSMENT

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

A generally pro-European, reformist government has been in power since July 2009. While some important political and economic reforms have been adopted, implementation of those reforms has been inconsistent. In particular, the rule of law remains weak and there are significant concerns regarding the independence and integrity of the judiciary.

These weaknesses were highlighted when the government collapsed in February 2013 following a major corruption scandal. While the governing coalition was reformed in late-May 2013, limited progress has since been made in tackling the underlying political and governance reform challenges in the country.

Moldova is nevertheless on track to initial an Association Agreement together with a Deep and Comprehensive Free Trade Area with the European Union in late-November 2013, with signing envisaged for 2014. The Association Agenda entailed by the Association Agreement should help to anchor the political and economic reform agenda espoused by the current government.

There has been little progress with regard to the long-frozen Transnistria conflict in recent years. The Moldovan government has continued to pursue a strategy of gradual normalisation of social and economic relations while aiming to make political association more attractive to the people and leaders of the breakaway region by securing better access to European markets and facilitating visa-free travel to the EU. However, concrete steps toward a political settlement have been limited, and there is limited political will on either side of the Nistru River for the type of compromise that would be necessary to reach a lasting settlement.

Free Elections and Representative Government

Free, fair and competitive elections

Moldovan citizens have the right to change their government through periodic elections held on the basis of universal suffrage. Elections in Moldova in recent years have been judged generally free and fair by international observers, although some problems have been noted in important areas that are central to a competitive election process, such as the accuracy of voter registration lists.

The Constitution of the Republic of Moldova provides for regular elections to the legislature, which is elected through a pure party list proportional representation system. The president is elected by the parliament on the basis of a supermajority of three-fifths of parliamentary mandates. The president nominates the prime minister, who forms the cabinet. The appointments of the prime minister and the cabinet are subject to approval by parliament.
Three parliamentary elections and one national referendum have been held since April 2009. Each of these events largely conformed to international standards for democratic elections, according to international observer missions from the OSCE and Parliamentary Assembly of the Council of Europe. However, shortcomings were nevertheless noted with regard to administrative interference, procedural weaknesses (particularly the accuracy of voter registration lists), and media bias.

In the most recent parliamentary elections, in November 2010, the final report by the OSCE’s Office of Democratic Institutions and Human Rights (ODIHR) concluded that “These early parliamentary elections met most OSCE and Council of Europe commitments. The elections were administered in a transparent and impartial manner by the Central Election Commission (CEC), which enjoyed the trust of most contenders. A diverse field of candidates provided voters with genuine choice. The media provided a broad range of political views and election information. Civil and political rights were respected during the election campaign.” However, the Final Report also highlighted flaws with the voter lists, incomplete and inaccurate campaign expenditure reports, lack of immediate action on complaints by the Central Electoral Commission, and media bias in some privately owned broadcasters as the key shortcomings.6

In response to these concerns, the Central Electoral Commission launched an electronic voter register in 2012, which was used during the local by-elections of November 2012. The CEC also undertook to reform the legislative basis for political party financing and prepared a draft law on the subject. However, this has not yet been adopted by parliament.

Separation of powers and effective checks and balances

The Constitution of the Republic of Moldova provides for some formal checks and balances within the political system. However, the president’s constitutional powers are limited, and the indirect election of the president by a parliamentary supermajority, rather than direct election by the people, limits the executive’s capacity to hold the legislature and government to account. More importantly, the independence of the judiciary is limited due to the politicised nature of the appointment of senior judges, including to the Constitutional Court, as well as the perception of high levels of corruption in the judicial system.

Effective power to govern of elected officials

Moldova’s elected officials have effective power to govern. The Moldovan military and security services are under civilian control and play no significant role in political decision-making in the country. However, certain business interests have significant influence on the country’s political life and high-level policy-making, including through their influence over the courts system, which has been used to challenge the authority of elected leaders and regulatory bodies, and the media. The national anti-corruption body has also allegedly been used to protect certain interested parties while persecuting others.

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Civil Society, Media and Participation

Scale and independence of civil society

Moldova’s civil society has been growing in scale, independence and diversity in recent years, and the country’s top civil society organisations (CSOs) are committed to working in partnership with the government to tackle the country’s political and social reform challenges. The receptiveness of the pro-European ruling coalition to the policy input of both domestic and international CSOs has given them a more effective voice in the policymaking process since 2009.

However, in general grassroots civil society organisations remain relatively weak and fragmented. Some CSOs are linked to political parties and as such have overtly political agendas. Moreover, Moldova’s largest and most effective civil society organisations remain largely dependent on foreign funding and focused on influencing high-level policy, and as such have relatively weak ties to the broader Moldovan populace.

Independent pluralistic media that operates without censorship

The Moldovan Constitution and laws enshrine freedom of the media and of expression, and expressly prohibit all forms of censorship. In practice, media freedom and independence have improved significantly since the pro-European coalition government was formed in 2009. A new law on freedom of expression, drafted in coordination with the Council of Europe and the European Union, was adopted in 2011 and began to appear in case law in 2012.7

However, significant challenges remain. Moldova’s largest privately owned television channels are owned by wealthy individuals with close ties to political parties and vested interests, and are routinely used to support political parties as well as to wage ‘smear campaigns’ directed against individual political figures. This practice was particularly rife during the political crisis in the first half of 2013, when a number of senior political figures were targeted in highly dubious ‘exposés’ of their corrupt practices.

In addition, the national media regulator, the Audiovisual Coordination Council, continues to engage in what is widely perceived as corrupt and/or politicised decision-making. In April 2012 the Council withdrew the broadcasting license of the opposition television channel NIT for its alleged failure to comply with the legal requirement for pluralism (NIT was singled out by the OSCE-ODIHR report for its bias in reporting on the 2010 parliamentary election). NIT appealed the ruling, but the appeals process was delayed repeatedly before ultimately being dismissed by the Chisinau Court of Appeal in February 2013, highlighting serious concerns about the impartiality of the Audiovisual Coordination Council as well as the courts.

Multiple channels of civic and political participation

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Moldovan citizens generally enjoy multiple channels of civil and political participation. Moldova has a large number of political parties, quasi-political and independent civil society organisations which represent a broad range of political and civil positions and concerns.

The most professional and well-resourced civil society organisations in Moldova have access to multiple points of government decision-making and the policy process. Some are invited to take part in formal ‘partnerships’ with the government in their respective issues areas, such as national programmes on anti-corruption or media freedom, and they are routinely consulted by parliamentary committees in their respective issue areas. However, some of these CSOs complain that their policy advice is routinely ignored by the authorities, particularly where it threatens powerful vested interests or might lead to more transparency in areas which those vested interests prefer remain untransparent.

*Freedom to form political parties and existence of organised opposition*

The legislative and normative basis for forming independent political parties is enshrined in the Moldovan Constitution and generally implemented in practice. Political parties are fully free to recruit members and campaign for public office, and opposition parties are free to not only campaign but also serve in elected office and oppose government initiatives. The parliamentary opposition Communist Party is in fact the single largest party in parliament, having won 42 of the 101 mandates, and is widely represented in local councils across the country, including in the capital Chisinau.

However, serious challenges remain in the area of political party financing. While three are clear legal provisions for transparent party financing rules, drafted with the support of the Council of Europe’s Venice Commission, these are routinely violated in practice. Recent attempts to improve the enforcement of these party financing regulations, supported by the European Commission and Council of Europe, which resulted in a draft law on party financing, have not yet delivered concrete results.

*Rule of Law and Access to Justice*

*Supremacy of the law*

The Constitution of the Republic of Moldova is the supreme law of the country and is generally accepted by most political forces. However, certain provisions of the Constitution have been challenged in recent years, in particular the provision for the indirect election of the president by parliament, which has led to political stalemate in recent years. However, two attempts to amend the relevant articles of the Constitution to provide for direct election of the president have failed due to low voter turnout.

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There are clear restrictions in place on the circumstances under which elected authorities can rule by decree or suspend constitutional rights and guarantees. In practice this has only happened once in recent years, in response to the mass protests and violence which followed in the disputed April 2009 parliamentary elections, and the state of emergency was quickly lifted once order had been restored.

All Moldovan citizens have the right to a fair trial and freedom from arbitrary arrest or detention. However, corruption and poor governance in the judiciary, police and prosecutor general’s office – and the abuse of the powers of those offices by some powerful, politically connected interests – have in practice undermined those rights in recent years. The lack of independence of, and corruption in, the judiciary in particular continues to affect the right to a fair trial.

*Independence of the judiciary*

The independence of the judiciary is the single largest political challenge facing Moldova today. Despite repeated moves to reform the courts, perceptions of corruption in the judicial system remain high and interference by both political and commercial interests into court decisions is believed to be extensive. The manipulation of court rulings was particularly evident in the political crisis in the first half of 2013, when a number of rulings – including by the Constitutional Court – were made non-transparently and were heavily criticised by the international community. As a result of this perceived bias and corruption, trust in the courts by both ordinary citizens and firms is extremely low.

*Government and citizens equally subject to the law*

The Moldovan Constitution guarantees the equality of all citizens before the law in principle, but this is not always upheld in practice. Impunity remains a problem, with the prosecutor general’s office not always taking steps to prosecute officials who violate the laws or commit human rights abuses.

Some elected and non-elected figures are able to place themselves above the law through their political or economic influence. This problem was brought to light in the corruption scandal which led to the collapse of the ruling coalition in early 2013, in which it was revealed that a party of senior officials had been hunting in a national forest, during the course of which one member of the hunting party was accidentally shot and killed. While the Prosecutor General resigned for his part in the illegal hunting party and the alleged cover-up afterward, no one has yet been prosecuted in this case. This case highlighted the weakness of the legal system in prosecuting public office-holders when they violate the law.

Legal requirements for public disclosure and independent audit of assets and income of public officials exist in principle but are not always upheld in practice. Asset disclosures – for example, of houses and other assets owned by political figures – are allegedly falsified. Exposure of these falsified asset disclosures by investigative journalists are rarely followed up by the law enforcement bodies.
Effective policies and institutions to prevent corruption

Corruption – both administrative corruption and high-level corruption – remain very serious challenges in Moldova. While a comprehensive anti-corruption strategy and a two-year action plan (2012-2013) were adopted by the Centre for Combating Economic Crimes and Corruption (CCECC), in consultation with civil society, this has had limited impact on reducing either the opportunities or the incentives to engage in corrupt practices.

In late 2012 the CCECC was reformed into the National Anti-Corruption Centre (NACC) directly subordinated to Parliament and its mandate refocused. The government also created the National Integrity Commission for civil servants, tasked with upholding standards in public life. In addition, the Economic Court of Appeal, widely seen as a locus of corruption, was abolished, and the competences of the first-instance Economic Courts were reduced.

According to the Transparency International’s Corruption Perceptions Index Moldova ranked 102nd in 2013 out of 177 countries, dropping from the 94th place the previous year.10

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly, and private property

As a member of the UN, the Council of Europe and the OSCE, Moldova has ratified nearly all core international human rights treaties, extensively accepting the obligations that derogate and periodically submitting national reports on their implementation. As a result Moldova has developed a strong legal basis for the protection of civil and political rights. However, the implementation of these international commitments has been inconsistent.

In 2011 Moldova adopted its second National Human Rights Action Plan (NHRAP) 2011-2014, which emphasises accession to international instruments on human rights; the approximation of national legislation with international standards; granting free access to justice; improving national mechanisms of human rights protection; granting effective defence of political, civil, economic, social and cultural rights; strengthening the protection of national minorities and ethnic groups, as well as categories of population in need, either because of age, social dependence or other circumstances (underage, prisoners, migrants); increasing the level of professional, moral and disciplinary training of the citizens in the field of human rights.11

While the fundamental freedoms of religion, conscience, movement, association and assembly are generally upheld in practice, freedom of speech, information and private property are unevenly enforced. The freedoms of speech and information have been limited by the distorted and biased coverage in some media, while the protection of

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10 Transparency International, Corruption Perceptions Index, 2013 and 2012
private property rights has come under threat by the transfer of assets through questionable court rulings, including on corporate governance and transparency of beneficial ownership in the financial sector in particular.

Political inclusiveness for women, ethnic and other minorities

Moldova is a multi-ethnic society and the Constitution and laws of Moldova prohibit discrimination based on race, gender, disability, language, or social status. However, the laws are not enforced systematically. Equal rights for women are enshrined in the Constitution and generally upheld in practice, although women’s participation rates in employment and pay levels are below those of men. Ethnic minorities, in particular the Turkic Gagauz, continue to enjoy preferential status in the Moldovan political order. However, widespread social prejudices against racial and other minority groups, particularly from the lesbian, gay, bisexual and transgender (LGBT) community, persist. As a result, these groups suffer from discrimination.

Freedom from harassment, intimidation and torture

The Constitution of the Republic of Moldova provides for freedom from harassment, intimidation and torture, and these freedoms are generally upheld in practice. Individuals, civic and political groups are generally free to engage in legal political activity, including the promotion and defence of human rights, without threat of harassment or intimidation from state or local agencies. However, there have been some reports of ill-treatment by the police and other investigative bodies in pre-trial detention.

Following a report by the Council of Europe’s Committee for the Prevention of Torture into alleged failures to address problems related to torture and ill-treatment of prisoners following the 2009 political crisis, the government embarked on a major review of the criminal code and other reforms, such as a review of the civil code and the law on the human rights ombudsman.
ANNEX 2 – ASSESSMENT OF TRANSITION CHALLENGES

The table and the supporting text below provide an overall assessment of Transition Challenges by sector, based on Transition Report 2013. There are two separate scores for each sector, rating market structures and market-supporting institutions.

Moldova: Sector transition indicators

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Market structure</th>
<th>Market-supporting institutions</th>
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<tr>
<td><strong>Corporate sectors</strong></td>
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<td>Roads</td>
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<td>Railways</td>
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<tr>
<td>Capital markets</td>
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*Source: Transition Report 2013*

**Agribusiness**
Market structure: *Medium*
Market institutions: *Medium*

Moldova’s trade regime with the EU has been further liberalised with the conclusion of the negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) which once effective is expected to bolster agricultural exports and attract new foreign investments. Also privatisation has accelerated and most agro-processors are privatised, but restructuring and competitiveness improvements are slow. Despite some progress on hygiene standards, processors still lack modern quality standards and traceability of produce is at an early stage. Productivity in crops production has significantly increased over recent years and compares favourably to other countries in the region. Warehouse receipt legislation has been approved in early 2006, includes mandatory indemnity fund, funding of which is still under discussion, and the implementation has only slowly progressed. The Moldovan banking system is selective in financing primary agriculture or agro-processors due to scarce resources and, given the sectorial risks there is a decreased lending appetite given the current challenging environment. Nonetheless, the Moldovan banking system still has one of the highest exposures to the sector in the region. FDI to the sector is limited. Specialised infrastructure is still at an early stage and the downstream value chain via wholesaling to retailing does not function very efficiently.
**Manufacturing and Services**
Market structure: *Medium*
Market institutions: *Large*

The market structure has been recently upgraded to reflect cumulative improvements in productivity in recent years, surpassing the levels in Ukraine and Armenia. Moldova’s Manufacturing and Services sector is largely private. The investment climate has been gradually improving with further streamlining of trade and business licensing procedures in 2009. Nonetheless, administrative barriers to enterprise entry and exit and obtaining building permits remain high. Businesses continue to suffer from the high frequency of tax payments and the amount of time spent in paying taxes. Recent developments reported by the 2013 Doing Business survey show that Moldova has strengthened its insolvency process by extending the duration of the reorganisation proceeding and refining qualification requirements for insolvency administrators. On the negative front, Moldova made enforcing contracts more difficult by abolishing the specialised economic courts. The National Agency for the Protection of Competition (NAPC), which was established in 2007, has now issued a number of important rulings, although there was a troubling lack of transparency and accountability in the consultation and decision-making processes in a number of cases against foreign-owned companies. In July 2012, the new Competition Law aligned with EU standards was passed in the second reading by the Members of Parliament of Moldova. The law represents an important step for the reform process in the country, but it remains to be verified whether it will lead to substantial improvements in the enforcement of competition policy. Significant challenges remain in improving corporate governance and business standards.

**Real estate**
Market structure: *Large*
Market institutions: *Medium*

The property market is at a relatively early stage of development, and the shortage of quality commercial real estate assets in all sub-segments remains amongst most acute in the region. There is a lack of international strategic investors, market penetration with innovative construction technologies remains very low, and there is lack of long-term financing. Most investors are local. Real estate market benefited from the completion of the First Cadastre project in 2007 focused on the development and implementation of a national unified real estate registration programme for urban and rural land and the establishment of a system of clear and enforceable ownership rights. As a result, Moldova ranks better than its neighbours on ease of land registration. However, obstacles remain with regard to the practical implementation of the legal framework. It still takes almost 300 days to obtain a construction permit (Moldova ranks 168th out of 185 countries in the World Bank Doing Business). Although the primary and secondary legislation supporting the sustainability of real estate (energy efficiency, impact on environment) has progressed, the awareness of the sustainability issues is low.
ICT
Market structure: Medium
Market institutions: Medium

The telecommunications regulator is independent and has sufficient investigation and decision power, but the sanctions it may impose are limited. The regulatory framework still needs to be further developed, e.g. in terms of tariff rebalancing. In 2013, conditions for competition have improved thanks to the implementation of mobile number portability. Although the market was liberalised as part of the WTO requirements in 2004 and a number of alternative operators have commenced operations, the state owned fixed line incumbent Moldtelecom continues to dominate the market. Efforts to privatisate the incumbent have failed repeatedly. Mobile penetration rates are growing rapidly, although from a relatively lower level. Mobile services are offered by Moldcell, Orange, Eventis and Unite (controlled by the state-owned incumbent Moldtelecom), with an additional one in Transdnistria (IDC). Both dial-up and broadband Internet services are available, although broadband penetration rate is still low. Moldtelecom is the dominant broadband provider.

Natural Resources
Market structure: Medium
Market institutions: Medium

The country is highly dependent on energy imports, mainly from Russia and Ukraine. Gas has replaced coal as the main fuel and it now constitutes 70 per cent of total primary energy supplies. Gazprom is the only gas supplier to Moldova and became in 1999 the majority owner of Moldovagaz, the Moldovan gas monopoly, through a debt for equity swap. The company is vertically-integrated and fully dominates the import, transmission and distribution of gas in Moldova, although a very limited number of independent licenced companies exist at local level. Conversely, the domestic oil products market is fully liberalised and is entirely supplied by private business entities which are licensed for the import and sale of oil products. Romania is the main supplier of petrol and a leading supplier of diesel, as the country does not have oil refining capacities. Market supporting institutions and policies need strengthening and the independence of the National Energy Regulatory Agency (ANRE) should be reinforced. Law enforcement and payment discipline are weak. The country intended implementation EU’s Second and Third package (in particular the obligation to unbundle the activities of Moldovagaz) has sparked opposition from Gazprom. The separatist region of Transnistria continues to accumulate large debts to Gazprom - as of March 2011, Transinitria’s stake in Moldovogaz was transferred to Gazprom as a partial settlement.

Sustainable Energy
Market structure: Large
Market institutions: Small

Moldova’s parliament passed a law on Energy Conservation in 2000 and a law on RE in 2007 that established a 20% target by 2020. Promotion systems include preferential
tariffs, mandatory purchase obligations and tax incentives. However, secondary legislation is still missing. In order to improve energy efficiency, Moldova passed in July 2010 a Law on Energy Efficiency and established an Agency for Energy Efficiency. The Government also approved the Energy Efficiency Fund (Government Decision No. 401 as of June 12, 2012). The Energy Efficiency Law partially transposed the Directive 2006/32/CE on energy end-use efficiency and energy services. It required development of several pieces of policy documents and primary and secondary legislation, namely the National Program on Energy Efficiency for 2011-2020 (Government Decision No. 833 as of November 10, 2011), the National Action Plan on Energy Efficiency for 2011-2014 approved by the Government Decision No. 107 as of February 7, 2013), the Law on Energy Performance of Buildings and the Regulation on Minimum Energy Efficiency Requirements for Buildings as well as requirements on ecological design. Energy tariffs have been increased over the past few years and collection rates are high, providing higher incentives for energy savings. However, environmental costs are still not included in energy prices. Energy intensity remains very high and the country’s renewable energy potential is underdeveloped. Moldova has signed and ratified the Kyoto Protocol as a Non-Annex1 party and has implemented four registered CDM projects. Remaining challenges are to further develop capacity for EE project implementation, design secondary legislation for RE and project implementation, further develop CC institutions, price incentives and project based approaches.

**Power**

*Market structure: Medium*

*Market institutions: Large*

There has been no progress with unbundling or privatisation since the initial legal unbundling at the end of the 1990s into generation, transmission and distribution and the subsequent privatisation of three distribution companies to Union Fenosa of Spain in 2001. The sector lacks transparency and there is some political interference in the regulatory process. However, Moldova signed the Energy Community accession protocol in March 2010, which requires harmonisation of legislation with energy sector EU acquis. Joining UCTE is also a serious objective. However, the transmission network, state-owned distribution companies (two of five) and generation plants (three, i.e. 100%) need investment. They have not been restructured. Further efforts are needed to reinforce the independence of the regulator, promote transparency and competition, and ensure full cost-recovery-based tariffs with adequate protection for vulnerable consumers. While the market rules allow for direct contracting by suppliers with external sources, in practice it is difficult to get around the state-owned official importer: this needs to be improved. Energy losses declined significantly in private distribution companies since privatisation as a result of investment but remain high by international standards. The ability to achieve further loss reductions is a function of the regulator approving the related investment plans and the willingness to pass the cost through to the end-users in the tariff. The collection rates have improved and reached almost 100 per cent. End-user tariffs have been raised by the regulator according to a revised tariff methodology and broadly in

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12 The preferential tariffs fall short of being categorised as feed-in-tariffs and there is not yet priority access or priority dispatch in Moldovan law.
line with increases in import prices. However, capacity reservation procedures for cross border trading need to be revised in line with open market principles.

Water and wastewater
Market structure: Large
Market institutions: Large

Municipal utility services are decentralised both in terms of ownership and decision making. Fragmentation has resulted with too many subsidiary waterworks (42) that often have uneconomically small exploitation areas. While a few operators are now corporatised, many utilities are organised as municipal enterprises (semi-corporatised) with de jure management independence, but de facto heavily dependence on the local administration. Financial and operational performance is generally weak and most municipally-owned utilities are loss making and unable to adequately maintain their networks. Cost inefficiencies (excessive employment, high energy use) need to be addressed, but substantial demand side measures were undertaken and the majority of connections are now metered. Investment funding has come mainly from donors and the state budget. Tariffs are set by the municipalities and are usually short of service costs, which led to a significant subsidising of the domestic consumption by the non-domestic consumption although some tariffs increases are being undertaken. ANRE is responsible for approving the methodology for water tariff setting and sets tariffs for industrial water. There is no requirement to make relations between utilities and municipalities more formal and transparent but service agreements are progressively being introduced. There is no private participation in the provision of water and wastewater services.

Urban Transport
Market structure: Medium
Market institutions: Large

Urban transport is decentralised both in terms of ownership and decision making. Municipally-owned operators activate only in the bigger cities, while private provision of transport services (minibuses) is widespread across the entire country. Financial and operational performance is weak - municipally-owned transport companies are not run at cost recovery despite receiving capital grants and operating subsidies. Municipal companies are typically overstaffed and cost-inefficient and budget support is volatile to the fluctuations in macroeconomic conditions and political priorities. Private operators cover costs from fare revenues, but operate relatively old fleets of mainly minibuses. Tariffs, regulated at the municipal level, although occasionally increased, do not provide an adequate revenue base to introduce and sustain the desired high quality service delivery. Integrated and electronic ticketing systems are yet to be introduced even in the capital city and fare leakage remains a problem. There is no requirement for arms-length, transparent, contract-based commercial relationships between municipal authorities and service providers, although the capital city Chisinau has introduced a service contract at the request of the EBRD. In practice political interference is common. Transport planning capacity is weak. In the absence of economic regulation of congestion and scarcity – parking remains unregulated – congestion is becoming a problem in the capital Chisinau due to increasing motorisation.
Roads
Market structure: Medium
Market institutions: Medium

After long delays in implementing reforms, a major restructuring plan (with help from a number of IFIs) is currently under development. A comprehensive Transport Sector Strategy (for 2008-2017) envisages improvements in road sector financing and some restructuring of the road maintenance sector. The Road Sector Financing Reform Plan was part of the Transport Strategy and was approved in February 2008. Also the Road Fund Law (2nd generation) was adopted in 2010. Road user charges are relatively high by regional standards. Road maintenance expenditure increased significantly and became rule-based (e.g. percentage of fuel levy without annual negotiations with Ministry of Finance) starting from 2009. Tendering is largely mandatory for construction and periodic maintenance contracts. The maintenance sector remains very fragmented with many small and highly inefficient state-owned companies (there is no competition for contracts).

Railways
Market structure: Large
Market institutions: Large

In railways, operating and policy setting functions are not separated and core railway businesses (infrastructure, passenger, freight, etc.) are operated by the same entity. The Moldovan Railways have been operated with little commercial autonomy. Tariffs are set by the government (i.e. no independent price regulator) with limited correlations to costs. After the railways accumulated significant debts and arrears, the government considered restructuring options. A sector restructuring plan was approved in 2008, which envisages unbundling of infrastructure and freight and passenger services. However, implementation is delayed and the railway system remains highly inefficient.

Banking
Market structure: Large
Market institutions: Medium

With assets-to-GDP ratio at 66 per cent, the banking sector in Moldova is reasonably large compared to EEC peers. As of end 2012, there are 14 banks in the sector, 7 of which are foreign owned. The only bank which is majority state owned (Banca de Economii) ranks amongst the top 5 players and holds an 11 per cent market share. Banks have only limited external funding, mostly from IFIs and parent banks in the case of foreign owned banks. Deposits/GDP stands at 45 per cent at the end of 2012. The share of deposits and private sector loans in FX amounts to 42 and 43 per cent, respectively, reflecting a fairly high level of dollarisation. The banking sector as a whole is very well capitalised with CAR at 25.6 per cent. However, NPLs have considerably increased, moving up from 8.8 per cent in 2011 to 14.5 per cent at the end of 2012, but started to improve in the first half of 2013. Bank legislation and supervision have been significantly improved over recent years, including in April 2013. Coordination among all public agencies was strengthened through the establishment of a Financial Stability Committee. Nevertheless, governance and transparency of the ownership structure of some of the private banks remains
inadequate, contributing to the riskiness of the sector, while proper enforcement of banking regulation remains difficult, especially due to the imperfections in the juridical system/court procedures.

**Insurance and other financial services**
Market structure: *Large*
Market institutions: *Medium*

Insurance legislation and regulation fall short of the IAIS standards. The supervisor is not a member of the IAIS and is perceived to have weak implementation capacity. However, Moldova’s regulatory framework has improved in the leasing segment and the country is now an associate member of an international accredited actuarial body, rectifying a decrease in the market institutions gap to medium. Insurance penetration remains low at 1.24 per cent and the availability of insurance products continues to be limited. 93 per cent of the premia are in the non-life segment. Skills in the industry remain to be improved. 24 leasing companies have been established mostly by banks, with some of these firms owned by foreign strategic investors. The top 3 leasing companies control 50 per cent of the market. Leasing portfolio to GDP is around 1 per cent, with 50 per cent of the portfolio being car leasing. Leasing legislation has gradually improved and Moldova is an associate member of an internationally accredited actuarial body, warranting an upgrade of the market structure to medium.

The pension system in Moldova operates as a pay-as-you-go scheme. The sector remains underdeveloped, and faces several challenges, among which compliance and collection, as well as weak incentives to participate and contribute to the pension system. Although the legal framework provides for private pension funds, the pension sector is yet to undergo a major structural reform (the country did not take any steps towards implementing mandatory private pensions under Pillar II). The mortgage segment is still in early stages of development with mortgage penetration decreasing further to less than 2 per cent of GDP (compared to slightly below 5 per cent at the end of 2011).

**Micro, Small and Medium-sized enterprises**
Market structure: *Large*
Market institutions: *Medium*

According to the National Bureau of Statistics, SMEs contributed 28.3 per cent to the GDP in 2010. Employment in SMEs has steadily decreased since 2007, as it did in large firms, but at a higher rate. As a result the share in employment of SMEs has gone down slightly and represented 59 per cent in 2010. Domestic credit to the private sector remains relatively low at about 31.8 per cent of GDP in 2012. Access to finance is limited, particularly for MSMEs as bank lending to this segment represents 34.9 per cent of total lending (end 2012), or about 13 per cent of GDP. Borrowers complain of the short loan tenors, which limit their ability to embark on long-term investment programmes and high real interest rates, which often make loan financing prohibitively expensive. Access to international capital markets is also limited due to the small size (by international standards) of most firms and the unfavourable risk profile of the economy. There are around 53 microfinance institutions in the region. They play an important role by financing small businesses generally deemed unattractive by commercial banks due to the high administration costs they entail and the lack of adequate collateral. At the end of 2012 the more active MFIs had a loan
portfolio of USD 209.8 million. However MFIs are poorly monitored due to the insufficient capacity at the Commission of Financial Markets. As for other forms of financing, venture capital operates in the region but no national fund exists. There is a draft law on venture capital but no legal framework has been established. The legal and regulatory framework that supports lending to SMEs needs further improvements. A fully functioning cadastre and a central collateral registry are in place. The coverage of the recently established private credit bureau is extremely low (3.9 per cent). Recent improvements in creditor’s rights legislation are positive although not sufficient to ensure seizing of collateral.

**Private equity**

Market structure: *Large*

Market institutions: *Medium*

A commercial private equity sector is yet to develop and to date the country has not attracted significant interest of international private equity funds. A challenging business environment, limited investment opportunities and poor exit prospects hinder the development of the sector. As a result, less than 5 regional fund managers include Moldova in their portfolio scope and there are no country dedicated fund managers. Active capital and capital available for investment are amounted to 0.4 and 1.6 per cent of GDP, respectively. Almost all net committed capital is concentrated in the growth and buyouts segments. Other investment strategies such as small capital and mezzanine are non-existent. Moldova’s conformity with OECD’s Principles of Corporate Governance is relatively good. Local institutional investor participation, however, is non-existent.

**Capital markets**

Market structure: *Large*

Market institutions: *Large*

Moldova’s government bond markets are relatively well-developed with the recently improved primary auction system, while corporate issues non-existent and money markets inadequate. Inter-bank markets are highly illiquid and currency forward markets remain limited in size and tenor. The market still needs to gain a critical mass of institutional investors. Banks remain the dominant investor base for (government) debt. The National Commission on the Financial Market, an independent body supervising securities markets, the insurance sector and other non-bank financing, replaced the National Securities Commission in 2007. Securities legislation complies, in theory, with IOSCO principles; however implementation falls short of international best practice. In particular, corporate registrars operate independently of the share issuing company and are subject to external influence. This has resulted in incidents in which shareholders’ shares were re-registered in the name of other parties, or share were registered under different nominees to circumvent regulations (e.g. on significant holdings or action in concert). Moldova’s public equity markets are not well-developed compared to the regional peers.
ANNEX 3 – LEGAL TRANSITION

This annex presents an analysis of selected legal areas relevant to the EBRD investment strategy for Moldova in the new period. It is based on the assessments conducted by the Bank’s Legal Transition Programme. The annex also mentions, where appropriate, the current or proposed technical cooperation activities initiated by the EBRD in these sectors. Making reference to the priorities identified in the current Strategy, this annex looks into judicial capacity, corporate governance and public procurement as part of the business environment improvement strategy, and then goes into telecommunications regulation and energy efficiency as part of the EU standards promotion and regional integration agenda.

Improving the business environment and corporate governance to boost foreign direct investment

Judicial Capacity

The EBRD Judicial Decisions Assessment 2010 found that the court judgments in commercial law matters in Moldova were of moderate quality and predictability. As with other countries in the region, lower court judges tended to apply general principles of laws and civil code provisions with which they are more familiar, rather than relevant provisions of commercial legislation. For example, in a number of decisions, courts in Moldova set aside orders to transfer pledged property only with reference to general provisions in the Civil Code and Civil Procedure Code, ignoring the specific provisions in the mortgage legislation. With commercial laws in the country still in need of modernisation, inadequacy of the legislative framework is one of the major factors contributing to the low quality of court judgments. Lack of a well-developed system of judicial education combined with judges’ lack of experience with commercial law and practice is another major factor affecting the quality of judgments. Commercial law judicial training provided by the EBRD from late 2013 through to summer 2014 will aim to address some of these concerns.

Courts continue to experience significant case backlogs, which affects the speed of proceedings. In addition, the impartiality of courts in Moldova is considered questionable. Overall, the country’s court system has made progress in recent years however, efforts need to be strengthened to improve the efficiency of the judiciary. Among these are ensuring more systematic and specialised training for judges in commercial law matters, and on judgment drafting and reasoning. The guidance notes provided by the Supreme Court could be expanded to improve the uniformity of jurisprudence. Training for bailiffs and ensuring public access to information on enforcement procedures is recommended, as well as measures to promote alternative dispute resolution procedures. In the latter respect, welcome reform efforts have recently commenced, supported by EBRD technical cooperation which will see commercial mediation piloted in courts in Chisinau and Balti.

Corporate governance

Good corporate governance is still in its infancy in Moldova, largely due to the main constraints detailed below. Both the quality of legislation and its effectiveness show serious weaknesses that should be targeted by authorities as a matter of priority.
The Law on Joint Stock Companies regulates the setting up and the functioning of the joint stock companies and sets out most of the corporate governance rules in Moldova; the Law on Securities Market establishes detailed disclosure requirements for the issuers, conflicts of interest rules and transactions with affiliated parties; the Law on Business Investment set out the rights and obligations of investors and provide them with guarantees and the Law on Entrepreneurship and Enterprises provides guarantees for the respect of investors' rights, protection against expropriation, and payment of damages in the event investors' rights are violated.


On June 1st, 2007, a Corporate Governance Code has been issued by the National Commission for Financial Market. The code includes a voluntary set of rules on corporate governance recommending the “comply or explain” rule. However, the code is not implemented.

The following areas need the attention of the Moldovan authorities:

- The law does not guarantee a level playing field with respect to the division of powers among corporate bodies. In particular, the default rule on appointment/removal of the supervisory board and executive board members provide little leverage to the supervisory board for its oversight functions. The strategic role of the supervisory board needs to be better clarified and strengthened.
- Company law requires companies (and banks) to have an audit commission, which is not a board committee but a separate body appointed by the general meeting of shareholders, whose members cannot be supervisory board members. The structure seems inadequate for insuring the integrity of the financial statements and the effectiveness of internal control system.
- Regulation on related party transaction and disclosure of beneficial ownership are detailed but there are doubts about their effectiveness.
- The corporate governance code should be revised and subject to implementation by listed companies and monitoring by relevant authorities.
- Banks' supervisory boards should consider strengthening the role of corporate secretary and developing nomination policies and self-evaluations exercises in order to increase the board's effectiveness.

Public Procurement

In the 2010 EBRD Public Procurement Assessment, the legal framework in Moldova scored low to medium compliance with international best practice. Since then, some changes have improved the legislation, which is set to achieve medium to high compliance in the forthcoming EBRD Regional Self-Assessment of Public Procurement Legislation. The laws improved in terms of transparency, but compliance with international standards is yet to be achieved.

Moldova is planning to become a signatory to the Agreement on Government Procurement (GPA) of the World Trade Organisation in 2013 and the EBRD established a technical cooperation project in 2012 assisting the Moldovan government in the negotiation process. Also, under the EBRD UNCITRAL Initiative on Enhancing Public Procurement Regulation in the CIS countries and Mongolia, a revision of the primary legislation will be supported by the UNCITRAL/EBRD team and funded by the UNDP.

In short, the PPL in Moldova requires a comprehensive update and modernisation in order to meet the 2011 WTO GPA requirements and comply with the EU public procurement policies.

**Promoting European standards and regional integration**

*Telecommunications*

The main legal basis for electronic communications regulation in Moldova is the Electronic Communications Act of 2008. A range of multi-sector laws including administrative procedures, licensing, consumer protection and criminal law also impact the sector. Moldovan legislation for electronic communications is broadly aligned with the European Union (EU) 2003 framework, and there are also plans to adopt the 2009 framework.

Though the law nominally provides for separation of the policy functions, carried out by the Ministry of Information Technology and Communications (MITC), and regulatory functions, carried out by the National Regulatory Agency for Electronic Communications and Information Technology (ANRCETI), in practice there is commonly the perception that ANRCETI’s independence and authority is negatively impacted by external influence on its work, from both MITC and other external parties.

ANRCETI’s authority is also limited by deficiencies in its enforcement powers, including its inability in the majority of cases to bring enforcement action in its own name and the lack of meaningful penalties. In practice, the Court is disposed to intervene too early and there is no provision for ANRCETI’s decisions to remain in force during an appeal, with the result that operators can use appeals to courts to delay implementation of ANRCETI’s decisions.

On the positive side, the authorisation regime in Moldova is aligned with the EU framework and makes it simple for any undertaking entering the market to provide networks or services by notification to ANRCETI 7 days prior to start of service. However, the Law on Regulation of Licensing Activity contains provisions that conflict with the Electronic Communications Act, including provisions with respect to automatic issuance of licences, breaches of licence conditions, licence withdrawal and penalties.

Lack of clarity in the roles of the MITC and ANRCETI in spectrum management and regulation, as well as limits to the technical capacity of the MITC, have resulted in the absence of substantial progress on key spectrum priorities, including implementation
of spectrum trading and re-farming resulting from switchover to digital broadcasting. However, though somewhat delayed, MITC has begun taking steps to advancing the implementation of digital switchover.

Universal service provisions generally align with 2003 EU framework; however, the MITC has not yet developed or adopted the required universal service programme for ANRCETI to implement.

Consumer protection provisions are aligned with 2003 EU framework, though not yet the substantially higher standards of the 2009 EU framework. For example, there is no limitation on long-term contracts and no strict requirements for consumer contracts by operators. Legislation on consumer protection is understood to currently be under amendment.

While electronic communications is an important contributor to the Moldovan economy in itself, it is the sector’s role as an engine of growth and development across all sectors of the economy that makes harmonisation of the domestic regulatory framework with that of the EU critical as a means of attracting the investment necessary to install next generation technologies. As EBRD maintains investment in the electronic communications sector in Moldova it is keen to see a transparent, more predictable and EU-compliant regulatory regime maintained as a means to enhance the attractiveness of the sector to private investors and the security of their investments.

Currently, the main reform efforts are understood to be centred on completion of harmonisation of the Moldova framework with that of EU 2003 and 2009 frameworks, particularly in the area of implementation of competitive safeguards.

To sum up, Moldova has made significant progress in developing a modern framework for a competitive marketplace for the electronic communications sector in the country in recent years. Harmonisation of the domestic framework with that of the European Union continues and its on-going implementation has contributed to positive development of the sector. To cement this progress and advance the maturity of the market, and therewith the benefit to consumers, the authorities should redouble their efforts to address key outstanding sector development impediments. As identified above, among those impediments are the less than robust institutional independence of ANRCETI, weak regulatory enforcement powers; remaining conflicts in legal provisions; and, the need to adopt more modern spectrum administration policies and practices.

*Energy efficiency*

Residential buildings are currently the largest energy end-user in Moldova and consume more than 38% of all final national energy consumption. At the same time, the residential building sector is understood to have a 61% energy saving potential. Conservative estimates of investment opportunities to address this energy saving potential are approximately €3.85 billion, with investment opportunities in the urban housing stock estimated at approximately €600 to 700 million.
The Energy Strategy till 2030 adopted in 2013 sets forth policy objectives in the energy efficiency (EE) sector for Moldova, among which there are reduction in the energy use by 20% by 2020. The Energy Efficiency Law provides the basic legal framework for the sector, containing basic requirements to conduct energy audits, to set EE standards to equipment, or to provide necessary programmes in the EE sector. However, the sector regulation remains scarce and insufficient for efficient development and implementation of the EE measures. The EE Fund has been set up with an objective of providing adequate support for the EE projects but lack of technical capabilities along with insufficient capacity building activities continues to be an obstacle to the growth of the project pipeline.

In line with its mandate to promote EE through sound banking mechanisms, in 2012 EBRD extended by an additional amount of EUR 22 million the Moldovan Sustainable Energy Financing Facility (“MoSEFF”) launched in 2010 whereby the EBRD provides, through local banks, financing to the EE projects based on the established eligibility criteria. Current partners to the initiative include the EU and its EE portal, INOGATE. The Bank has also launched a new EUR 35 million financing framework called the Moldovan Residential Energy Efficiency Financing Facility (“MoREEFF”) aimed at financing residential energy efficiency improvements. In that context, recognising that the existing legal framework does not provide sufficient incentives and guarantees to investors for development and implementation of EE projects in the residential sector, EBRD continues its technical assistance programme to support improvement of framework, including in the field of energy performance of buildings and housing. The project is being developed in cooperation with the Ministry of Construction and Regional Development of Moldova. The most immediate objectives of the project are adoption of a new Condominium Law and the entire legislative package for harmonisation of the Moldovan legislation on energy performance of buildings with the EU.

While the government of Moldova has shown willingness to reform the residential sector in order to promote implementation of EE measures, the success of the reform is still dependent on the political will, and frequent changes within the government may impede smooth implementation of the reforms. Reform efforts need to be intensified in order to maximise the outcomes of the current processes, including the ongoing technical assistance projects with the EBRD. Further consideration should be given to putting in place necessary instruments enabling effective implementation of the drafted legislation when adopted. ESCO models for financing EE improvements in public buildings should be considered. Strengthening capacity of public officials, residents (homeowners’ organisations) and market participants as well as holding awareness campaign promoting benefits of increasing EE in all sectors should also be part of the government’s reform agenda.
The Bank supports economic transition through its Small Business Support operations which are aimed at achieving enterprise change in viable micro, small and medium enterprises (MSMEs) and contributing to the development of a sustainable infrastructure of local business advisory services. SBS operations comprise two complementary instruments, the Enterprise Growth Programme (EGP), and Business Advisory Services (BAS).

**Previous SBS experience in Moldova**

Since its beginning in 1998, EGP has received a total of EUR 2.6 million in donor funding for projects in Moldova. The largest donors to EGP have been the EU, the EBRD (Early Transition Countries Fund and Special Shareholders Fund), Japan, and Sweden. Additional funding came from Taipei China, the Netherlands, the UK, France, Belgium, Switzerland, Denmark and Italy. The Programme has carried out 42 projects throughout Moldova, of which 2 are still in progress. Enterprises assisted operate mainly in the food manufacturing, textile, chemicals, and building material industries. In 2009-2012, the average turnover of EGP-assisted enterprises was to EUR 6 million, whilst the average number employee was 190. Compared to the beginning of the project, EGP clients have recorded a 23 per cent increase in productivity as of the end of EGP assistance.

Since its inception in 2005, BAS Moldova has received a total of EUR 2.5 million in donor funding. This has been supplemented by app. EUR 2.3 million in enterprise client contributions. As of the end of June 2013 BAS has undertaken a total of app. 450 projects with MSMEs, engaging 242 consultants. BAS assists small enterprises and more than 70 per cent of the projects are with enterprises with less than 50 employees. Projects aimed at improvement of market performance, information communication technology and energy efficiency have been the most common type among all projects carried out in Moldova. The industry spread of enterprises assisted has been wide, with wholesale and retail distribution, construction and engineering as well as electronics and IT being among the most common sectors. 288 projects in Moldova have been evaluated, of which 79 per cent were rated successful or highly successful. During projects evaluation, 87 per cent of BAS assisted enterprises have reported an increase in turnover, and 67 per cent an increase in their workforce. BAS thereby contributed to the creation of more than 2,300 jobs. In addition to projects, BAS carried out market development activities (MDAs) geared towards increasing the demand for consultancy services (via visibility and dissemination events) as well as improvement of quality of consultancy services (via training programmes for local consultants) resulting in the fact that 55 per cent of assisted enterprises continue using consultants at their own cost.

In terms of cross-cutting issues, SBS has focused on promoting women entrepreneurship and energy efficiency. SBS has implemented 2 specific programmes funded by the Swedish Government: Women in Business Programme targeted at helping female entrepreneurs boosting through business advisory and training; and Energy Efficiency Programme aiming at supporting Moldovan enterprises to implement energy saving actions, develop local market of EE consultancy and raise public awareness among SMEs on the possibilities of energy costs reduction and
benefits. Special attention is also paid to the rural companies development, with more than 30 per cent of BAS beneficiaries located outside of Chisinau.

Starting with 2009, SBS-assisted enterprises raised EUR 11.5 million in external financing, including local financial institutions and partner banks. To date, EUR 22 million was raised by SBS-assisted enterprises in Moldova.

**MSME and Consulting sector in Moldova**

*The MSME sector and business environment*

In the last 3 years Moldova enjoyed strong economic growth, as the government embarked on reform programme assisted by international community. Reforms in taxation, education, civil service, energy sector, foreign trade and business regulation improved Moldova’s business environment and helped to attract foreign investments into the country. Still, with the lowest GDP per capita in the Europe, Moldova has long way to grow.

The breakup of the Soviet Union left Moldova with moderately developed infrastructure, a poor industrial base and limited natural resources apart from agricultural land. Absent heavy industry and large industrial companies, the MSME sector developed very quickly, being now fairly well represented in the economy. In 2012 there were almost 50 thousand micro, small and medium enterprises, which employed 26 per cent of the national workforce and contributed 34.5 per cent to the total enterprise turnover and 49 per cent to gross value added. Additionally over 300 thousand individuals (26 per cent of the labour force) were registered as self-employed. The number of MSMEs grew by 13 per cent since 2009, driven by small and micro segments, while around 5 per cent of medium enterprises ceased to exist during the period. MSME’s employment was down 5 per cent since 2009, as only micro firms were net hirers. Most of the enterprises are located in Chisinau (66 per cent), and the majority are involved in low value-added activities, like trade (40 per cent), real estate and business services (17 per cent). Individual entrepreneurs are predominantly engaged in agriculture (70 per cent), construction (12 per cent) and trade (11 per cent).

Despite strong economic performance and growth in MSME business, many challenges remain. Although business environment and regulatory burden have improved markedly compared to pre-crisis, it is still difficult for MSME and restrains its development. Other important issues include lack of business sophistication and management expertise, low production quality, and small and fragmented local market. Access to financing is another major problem. Banking penetration in the country is low, with domestic credit to the private sector at about 31.8 per cent of GDP, of which SME loans represent around 35 per cent (13 per cent of GDP). Various microfinance institutions are fairly active in Moldova, represented by 53 microfinance organisations and 396 saving and loan associations. Nevertheless, the lending capacity of these institutions is low and supervision from regulators is poor. Alternative sources of financing are very limited, as leasing companies are inactive and capital market is nascent.
The consultancy market

The consultancy sector in Moldova faces medium transition challenges with regards to MSMEs, according to the assessment of Transition Challenges 2011. The industry remains fragmented and the consultancy services supply requires further diversification. Demand for consultancy services requires further development, especially in rural areas. Disparities remain between urban and rural areas, as only 1 per cent of BAS qualified active consultants operate outside the main cities. The number of local consultants appears to be adequate relative to the number of active MSMEs, and some of international consultants operate in the country.

Moldovan consultants provide services in a number of areas but most of them are specifically qualified in the area of market analysis and planning and implementation of computerised/financial MIS. In recent years, the number of consultants offering consultancy in energy efficiency has also increased as a result of BAS efforts. Additional expertise, however, is needed with regard to financial management, manufacturing systems, as well as business development planning and energy efficiency consultancy. The quality of services has improved in recent years but many providers still lack specialisation, innovation and international market insights. There is no professional management consultant association in place to support and further develop the market.

Infrastructure of SME support

Over the past years there has been visible progress in establishing institutional framework for MSME in Moldova. A functioning cadastre and central collateral registry are in place, as well as recently established private credit bureau. The government regulates sector and elaborates policy through the Ministry of Economy and the budget-sponsored Organisation for Development of Small and Medium Enterprises ODIMM. Other organisations that promote MSME sector development include the Chamber of Commerce and Industry and the Moldovan Investment and Export Promotion Organisation (MIEPO), as well as business associations.

In 2012, Moldova’s government has adopted a “Small and Medium Enterprise Sector Development Strategy for 2012-2020”, which sets 6 key long-term priorities and the action plan for the policymakers.

Continuation of SBS in Moldova

The Bank will continue to support SMEs through direct enterprise assistance under SBS operations in order to contribute to the development of a competitive and sustainable private sector in Moldova. SBS operations will continue to cover all sectors, but will focus on export oriented companies.

The Bank will facilitate access of the SBS clients to finance through the EBRD and its partner financial institutions, as well as other FIs. Cross-cutting issues such as gender equality, energy efficiency and rural businesses development will also continue to be addressed.
Under EGP operations, the Bank will help senior managers of local enterprises develop new business skills and make the structural changes their companies. International advisors will act as mentors to achieve sustainable results by changing the enterprise business culture and improving business viability. The projects are tailored to the needs of the client, and can cover areas from restructuring, to marketing and design or financial management. EGP will be focusing on providing advice in the areas of corporate governance, organisation and management effectiveness, business planning, budgeting and control practices, sales and marketing, and product development. Focussing on the industries having high potential to grow domestically and internationally, EGP can contribute to build the confidence of SMEs to operate successfully and adapt to international markets. To help local companies access external finance, EGP will become one of the Bank’s key instruments in helping companies transform themselves to become more bankable.

Under BAS operations, the Bank plans to further enable MSMEs to access advisory services by facilitating projects with local consultants. A flexible grant scheme will be continuously applied through annual updates of the Grant Guideline Matrix to prioritise interventions, ensure additionality and avoid duplication of efforts with national initiatives and international donors. Higher grants are allocated for enterprises located outside of major cities, for women entrepreneurs and energy efficiency projects. BAS will thus continue implementation of specific Women in Business programme targeted at helping female entrepreneurs boosting their businesses through training and advisory services with a greater focus on facilitating access to finance. Further efforts will concentrate on energy efficiency projects (in cooperation with E2C2), aiming at supporting enterprises in enhancing EE and RE use and facilitate financing of EE projects by local FI’s and EBRD. The Bank will also implement ETC Accounting Improvement Programme (AIP) with the objective of raising enterprise financial management practices and standards.

At the market level, the Bank will promote international best practices through dissemination of successful showcases and trainings. The Bank will promote the use of business advisory services to stimulate demand and enhance the professionalism of the local consultancy sector. The Bank will seek to develop a sustainable MSME support infrastructure through the support and development of local consultants.

Beyond these priorities, the Bank will strengthen the policy dialog component by targeted collaboration with main stakeholders, including, but not limited through organisation of EE Programme Coordination/Steering Committee and other relevant activities.
### ANNEX 5 – TECHNICAL COOPERATION

#### TC COMMITMENTS BY DONOR THROUGH EBRD, 2011-2013 (H1)

<table>
<thead>
<tr>
<th>Donor</th>
<th>TC Commitments (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central European Initiative</td>
<td>49,260</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>735,000</td>
</tr>
<tr>
<td>Early Transition Countries Fund</td>
<td>85,584</td>
</tr>
<tr>
<td>EBRD Shareholder Special Fund</td>
<td>3,047,793</td>
</tr>
<tr>
<td>EU</td>
<td>2,641,398</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>287,931</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>43,000</td>
</tr>
<tr>
<td>Sweden</td>
<td>4,872,688</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>11,762,654</strong></td>
</tr>
</tbody>
</table>

#### TC COMMITMENTS BY SECTOR THROUGH EBRD, 2011-2013 (H1)

<table>
<thead>
<tr>
<th>Sector/Team</th>
<th>TC Commitments (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Development *</td>
<td>SBS</td>
</tr>
<tr>
<td>Enterprise Support</td>
<td>2,932,216</td>
</tr>
<tr>
<td></td>
<td>365,000</td>
</tr>
<tr>
<td>E2C2</td>
<td>E2C2</td>
</tr>
<tr>
<td></td>
<td>3,318,240</td>
</tr>
<tr>
<td>Environment</td>
<td>E2C2</td>
</tr>
<tr>
<td></td>
<td>3,318,240</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>Financial Institutions</td>
</tr>
<tr>
<td></td>
<td>240,000</td>
</tr>
<tr>
<td>LTT</td>
<td>LTT</td>
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<tr>
<td></td>
<td>1,189,081</td>
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<tr>
<td>Infrastructure</td>
<td>MEI</td>
</tr>
<tr>
<td></td>
<td>3,584,164</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td><strong>11,762,654</strong></td>
</tr>
</tbody>
</table>

Note: Commitment values based on year end or period end data for each year.

* This sector category encompasses direct assistance to SMEs and indirect assistance through policy dialogue between the EBRD, the authorities and commercial/business associations (e.g. Investment Councils)
<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Projection</th>
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<tr>
<td><strong>Output and expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>GDP</td>
<td>3.0</td>
<td>7.8</td>
<td>-5.0</td>
<td>7.1</td>
<td>0.8</td>
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<td>Private consumption</td>
<td>18.6</td>
<td>5.6</td>
<td>-6.0</td>
<td>7.1</td>
<td>0.8</td>
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<td>Public consumption</td>
<td>7.2</td>
<td>2.2</td>
<td>-1.1</td>
<td>-0.7</td>
<td>-2.5</td>
<td>1.0</td>
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<td>Gross fixed capital formation</td>
<td>15.0</td>
<td>2.2</td>
<td>-10.9</td>
<td>7.1</td>
<td>12.0</td>
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<tr>
<td>Exports of goods and services</td>
<td>4.5</td>
<td>3.4</td>
<td>-12.1</td>
<td>13.7</td>
<td>27.4</td>
<td>2.3</td>
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<tr>
<td>Imports of goods and services</td>
<td>14.8</td>
<td>2.9</td>
<td>-23.6</td>
<td>14.3</td>
<td>18.7</td>
<td>2.5</td>
<td>2.5</td>
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<td>Industrial gross output</td>
<td>-13.5</td>
<td>15.9</td>
<td>-21.2</td>
<td>9.3</td>
<td>6.5</td>
<td>-19</td>
<td>-19</td>
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<td><strong>Labour Market</strong></td>
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<td>Gross average monthly earnings in economy (annual average)</td>
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<td>22.5</td>
<td>8.1</td>
<td>7.8</td>
<td>7.1</td>
<td>8.9</td>
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<td>Real LCU wage growth</td>
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<td>8.8</td>
<td>8.1</td>
<td>1.0</td>
<td>-0.5</td>
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<td>-2.1</td>
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<td>Unemployment rate (end-year)</td>
<td>5.4</td>
<td>3.9</td>
<td>8.2</td>
<td>7.5</td>
<td>6.2</td>
<td>5.9</td>
<td>na</td>
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<td><strong>Prices</strong></td>
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<tr>
<td>Consumer prices (annual average)</td>
<td>2.1</td>
<td>2.9</td>
<td>-0.1</td>
<td>7.4</td>
<td>7.7</td>
<td>4.7</td>
<td>4.4</td>
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<tr>
<td>Consumer prices (end-year)</td>
<td>1.3</td>
<td>7.3</td>
<td>0.4</td>
<td>8.1</td>
<td>7.8</td>
<td>4.1</td>
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<td><strong>Fiscal Indicators</strong></td>
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<td>General government balance</td>
<td>-0.2</td>
<td>-10.0</td>
<td>-6.5</td>
<td>-2.5</td>
<td>-2.4</td>
<td>-2.1</td>
<td>-2.6</td>
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<tr>
<td>General government revenues</td>
<td>9.7</td>
<td>4.8</td>
<td>38.9</td>
<td>38.3</td>
<td>38.9</td>
<td>38.3</td>
<td>38.3</td>
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<td>General government expenditure</td>
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<td>41.0</td>
<td>45.2</td>
<td>40.8</td>
<td>39.0</td>
<td>40.3</td>
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<td>General government debt</td>
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<td>20.5</td>
<td>23.1</td>
<td>23.9</td>
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<td>Broad money (M2, end-year)</td>
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<td>16.9</td>
<td>3.2</td>
<td>5.4</td>
<td>1.0</td>
<td>20.8</td>
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<td>Credit to the private sector (end-year)</td>
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<td>19.5</td>
<td>-5.2</td>
<td>9.9</td>
<td>15.6</td>
<td>210.0</td>
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<tr>
<td>Non-performing loans ratio</td>
<td>3.7</td>
<td>5.9</td>
<td>1.4</td>
<td>1.3</td>
<td>1.0</td>
<td>14.5</td>
<td>na</td>
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<tr>
<td><strong>Interest and exchange rates</strong></td>
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<tr>
<td>Local currency deposit rate</td>
<td>6.7</td>
<td>7.3</td>
<td>9.6</td>
<td>9.8</td>
<td>8.6</td>
<td>8.4</td>
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<tr>
<td>Foreign currency deposit rate</td>
<td>6.5</td>
<td>7.3</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
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<tr>
<td>Foreign currency lending rate</td>
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<td>1.8</td>
<td>20.3</td>
<td>14.8</td>
<td>14.0</td>
<td>14.0</td>
<td>14.0</td>
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<tr>
<td>Foreign currency lending rate</td>
<td>0.7</td>
<td>1.4</td>
<td>10.6</td>
<td>9.4</td>
<td>7.7</td>
<td>8.3</td>
<td>8.3</td>
</tr>
<tr>
<td>Money market rate / Discount rate / Policy rate</td>
<td>9.0</td>
<td>14.0</td>
<td>5.0</td>
<td>8.0</td>
<td>5.0</td>
<td>9.5</td>
<td>9.5</td>
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<tr>
<td>Exchange rate (end-year)</td>
<td>11.33</td>
<td>10.40</td>
<td>-1.30</td>
<td>10.4</td>
<td>11.72</td>
<td>12.06</td>
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<td>Exchange rate (annual average)</td>
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<td>13.90</td>
<td>11.11</td>
<td>13.37</td>
<td>11.73</td>
<td>12.06</td>
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<td><strong>External sector</strong></td>
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<tr>
<td>Current account</td>
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<td>-8.1</td>
<td>-8.2</td>
<td>-7.7</td>
<td>-8.5</td>
<td>-7.0</td>
<td>-7.0</td>
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<tr>
<td>Trade balance</td>
<td>-52.2</td>
<td>-53.2</td>
<td>-58.8</td>
<td>-38.2</td>
<td>-40.9</td>
<td>-40.3</td>
<td>-40.3</td>
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<tr>
<td>Merchandise exports</td>
<td>312.2</td>
<td>272.7</td>
<td>24.7</td>
<td>124.7</td>
<td>32.4</td>
<td>30.7</td>
<td>30.7</td>
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<tr>
<td>Merchandise imports</td>
<td>83.4</td>
<td>80.4</td>
<td>60.2</td>
<td>65.5</td>
<td>73.3</td>
<td>71.0</td>
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<tr>
<td>Foreign direct investment</td>
<td>11.9</td>
<td>11.5</td>
<td>2.5</td>
<td>3.3</td>
<td>3.7</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Gross reserves, excluding gold (end-year)</td>
<td>303.8</td>
<td>276.0</td>
<td>27.0</td>
<td>29.6</td>
<td>28.0</td>
<td>14.7</td>
<td>14.7</td>
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<tr>
<td>External debt stock</td>
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<td>67.4</td>
<td>80.2</td>
<td>82.3</td>
<td>77.6</td>
<td>84.6</td>
<td>84.6</td>
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<tr>
<td>Public external debt</td>
<td>20.5</td>
<td>16.2</td>
<td>20.3</td>
<td>22.4</td>
<td>20.9</td>
<td>23.4</td>
<td>23.4</td>
</tr>
<tr>
<td>Private external debt</td>
<td>54.5</td>
<td>62.2</td>
<td>59.9</td>
<td>68.6</td>
<td>68.6</td>
<td>61.1</td>
<td>61.1</td>
</tr>
<tr>
<td>Gross reserves, excluding gold (end-year)</td>
<td>3.7</td>
<td>3.5</td>
<td>4.5</td>
<td>4.5</td>
<td>3.9</td>
<td>4.9</td>
<td>4.9</td>
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<tr>
<td><strong>Memorandum items</strong></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>GDP (in billions of Lei)</td>
<td>53.430</td>
<td>62.922</td>
<td>60.430</td>
<td>71.885</td>
<td>62.349</td>
<td>87.547</td>
<td>87.547</td>
</tr>
<tr>
<td>GDP per capita (in US dollars)</td>
<td>12.29</td>
<td>15.95</td>
<td>15.24</td>
<td>15.31</td>
<td>19.71</td>
<td>20.37</td>
<td>20.37</td>
</tr>
<tr>
<td>Share of industry in GDP (in per cent)</td>
<td>14.3</td>
<td>13.9</td>
<td>13.3</td>
<td>13.3</td>
<td>14.0</td>
<td>14.0</td>
<td>14.0</td>
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<tr>
<td>Share of agriculture in GDP (in per cent)</td>
<td>10.0</td>
<td>8.5</td>
<td>8.5</td>
<td>12.0</td>
<td>12.3</td>
<td>10.9</td>
<td>10.9</td>
</tr>
<tr>
<td>FDI (in million of US dollars)</td>
<td>524</td>
<td>95</td>
<td>99</td>
<td>94</td>
<td>253</td>
<td>159</td>
<td>159</td>
</tr>
<tr>
<td>External debt - reserves (in US$ million)</td>
<td>156.3</td>
<td>240.7</td>
<td>287.9</td>
<td>300.8</td>
<td>347.8</td>
<td>302.0</td>
<td>302.0</td>
</tr>
<tr>
<td>External debt/export of goods and services (in per cent)</td>
<td>15.7</td>
<td>15.8</td>
<td>27.9</td>
<td>208.9</td>
<td>172.3</td>
<td>163.8</td>
<td>163.8</td>
</tr>
<tr>
<td>Broad money (M2, end-year in per cent of GDP)</td>
<td>512</td>
<td>50.3</td>
<td>54.1</td>
<td>51.5</td>
<td>49.8</td>
<td>56.4</td>
<td>56.4</td>
</tr>
<tr>
<td>Remittances and compensation (percent change of amount)</td>
<td>27</td>
<td>27</td>
<td>-17</td>
<td>13</td>
<td>18</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

* Figures do not include emigrant workers abroad.
ANNEX 7 – GENDER EQUALITY

Gender Inequality and Human Development

According to the UNDP 2012 Human Development Index (HDI)\(^\text{14}\), the Republic of Moldova is among the countries with medium human development index. It is ranked 113\(^\text{th}\) out of 186 countries, below the regional average for Eastern Europe and the Caucasus. The country ranks better in terms of the UNDP Gender Inequality Index (GII), at 49\(^\text{th}\) out of 186\(^\text{15}\).

Labour market participation and gender pay gap

According to the Government statistics, women’s activity rates in Moldova are smaller than those of men (39.3 per cent of women were economically active compared to 45.6 per cent of men in 2011). Employment rates are 5 percentage points lower for women than men (42.7 per cent for men compared to 37.1 for women) and male unemployment is two percentage points higher than female unemployment (7.7 per cent for men compared to 5.6 per cent for women)\(^\text{16}\). The National Bureau of Statistics of the Republic of Moldova reported that in 2012 men were mostly engaged in agriculture, industry and construction, while women outnumbered men in traditionally feminine sectors, such as trade, hotels and restaurants, public administration, education, health and social work. The gender pay gap was 12.2 per cent in 2011\(^\text{17}\).

According to Government statistics, female students outnumber males in upper secondary education (57 per cent of those enrolled), post-secondary education (55.3 per cent) and higher education (56.3 per cent)\(^\text{18}\).

Entrepreneurship and access to finance

In 2009, the Business Environment and Enterprise Performance Survey (BEEPS) interviewed 363 firms in Moldova and found that 53.1 per cent of firms were owned by women and 20.6 per cent of firms had a female top manager\(^\text{19}\). This is above the average for Eastern Europe and Central Asia. The same survey did not show significant differences in rejection of loans application by the sex of the firm owner or manager. However, the survey shows that male owned or managed firms apply for loans more often than female owned or managed firms (54 per cent of male owned firms compared to 47 per cent of those female owned; and 51 per cent of male managed firms compared to 49 per cent of those female managed applied for loans in 2009).


\(^{15}\) The GII is a composite measure of indicators in the areas of reproductive health, political participation, and labour market participation. See http://hdr.undp.org/en/media/HDR_2013_EN_complete.pdf


\(^{17}\) http://www.statistica.md/category.php?l=en&ide=264&


\(^{19}\) http://www.enterprisesurveys.org/Data/ExploreEconomies/2009/moldova#gender