



Moldova Country Strategy

2017-2022



European Bank
for Reconstruction and Development

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Glossary of Key Terms

ABI	Annual Business Investment	MW	Megawatt
ASB	Advice for Small Business	ODA	Official Development Assistance
CPI	Consumer price index	PFI	Partner financial institutions
CSO	Civil society organisations	PTI	Portfolio Transition Impact
DCFTA	Deep and Comprehensive Free Trade Area	RE	Renewable energy
E&S	Environmental and Social	SME	Small and Medium Enterprises
EBRD	European Bank for Reconstruction and Development	SOE	State owned enterprise
		TC	Technical Cooperation
		WB	World Bank
		WiB	Women in Business
EE	Energy efficiency		
EEC	Eastern Europe and Caucasus		
EHS	Environment, health and safety		
EIB	European Investment Bank		
ENTSO-E	European Network of Transmission System Operators for Electricity		
ETI	Expected Transition Impact		
EU	European Union		
E&S	Environmental and Social		
FDI	Foreign Direct Investment		
FEZ	Free Economic Zone		
GDP	Gross domestic product		
GET	Green Economy Transition		
ICA	Industry, Commerce and Agribusiness		
IFI	International Financial Institution		
IMF	International Monetary Fund		
MSME	Micro, Small and Medium Enterprise		

Strategy for Moldova – 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 pace of the reform process has been uneven in the previous strategy period, partially owing to Moldova's contentious politics, although stability has strengthened since the establishment of a new coalition government in January 2016. The EU-Moldova Association Agreement, including DCFTA, fully entered into force in 2016, and a three-year IMF programme was approved in the same year, reopening international budget support and providing an anchor for reform. Notwithstanding these developments, Moldova's progress continues to be held back by fragile commitment to reform and significant structural challenges. The economy's small size and narrow base, adverse demographic factors (including extensive emigration), and difficult business climate dampen investor interest and affect growth prospects. Weak governance and opaque ownership in the banking sector led to imprudent business practices, has impeded intermediation and constrained access to finance for businesses.

Moldova lacks in all six transition qualities identified by the EBRD as key components of a sustainable market economy (competitive, well-governed, green, inclusive, resilient and integrated). Building on its engagement in the country to-date, leveraging its comparative advantages versus other international financial institutions, and taking into consideration the government's reform priorities, the Bank will prioritise improving **governance** and enhancing the **resilience** of the economy through unlocking the banking sector and strengthening energy security, and enhancing the country's **competitiveness** by supporting the private sector and helping modernise and reform the public sector. Through its projects, the EBRD will also aim to promote green economy and inclusive, gender-equal growth, in line with its Board approved Green Economy Transition approach, Gender Strategy and Economic Inclusion Strategy. With that in mind, the Bank is set to pursue the following strategic priorities in Moldova in 2017-2022:

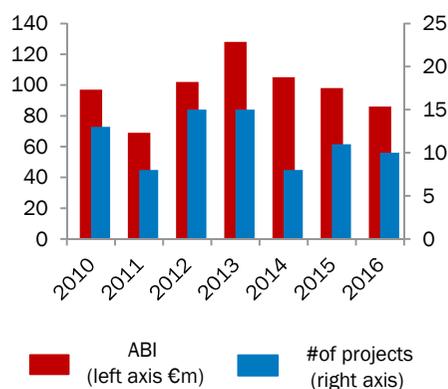
- Improve Governance and strengthen Resilience by leading in the restructuring of the banking sector, and enhancing energy security
- Enhance Competitiveness by supporting private firms in building capacity, and promoting commercialisation of public utilities and infrastructure

Moldova - EBRD Snapshot

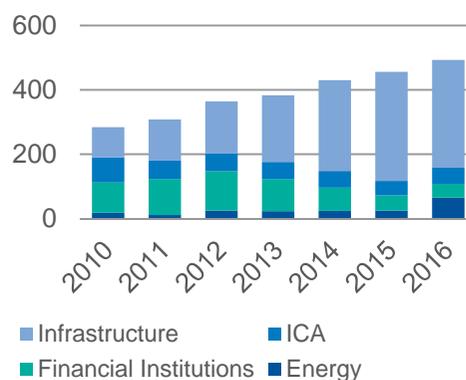
EBRD Investment Activities in Moldova ¹

Portfolio	€469m	# of active projects	43
Equity share	3%	Operating assets	€139m
Private sector share of portfolio	44%	Net cum. investment	€1,147m

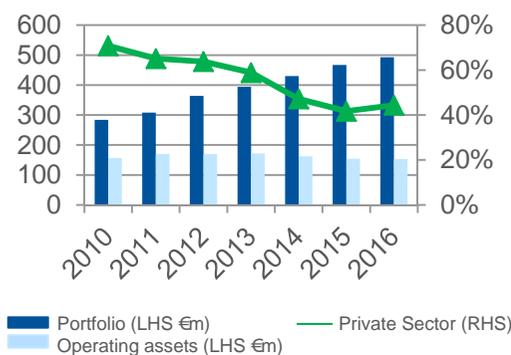
ABI and Operations



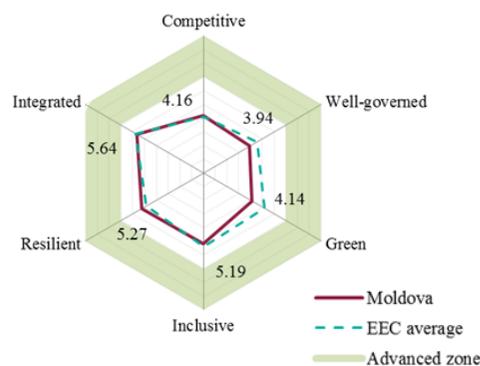
Portfolio Composition (€m)



Portfolio Dynamics



Transition Gaps (1-10)



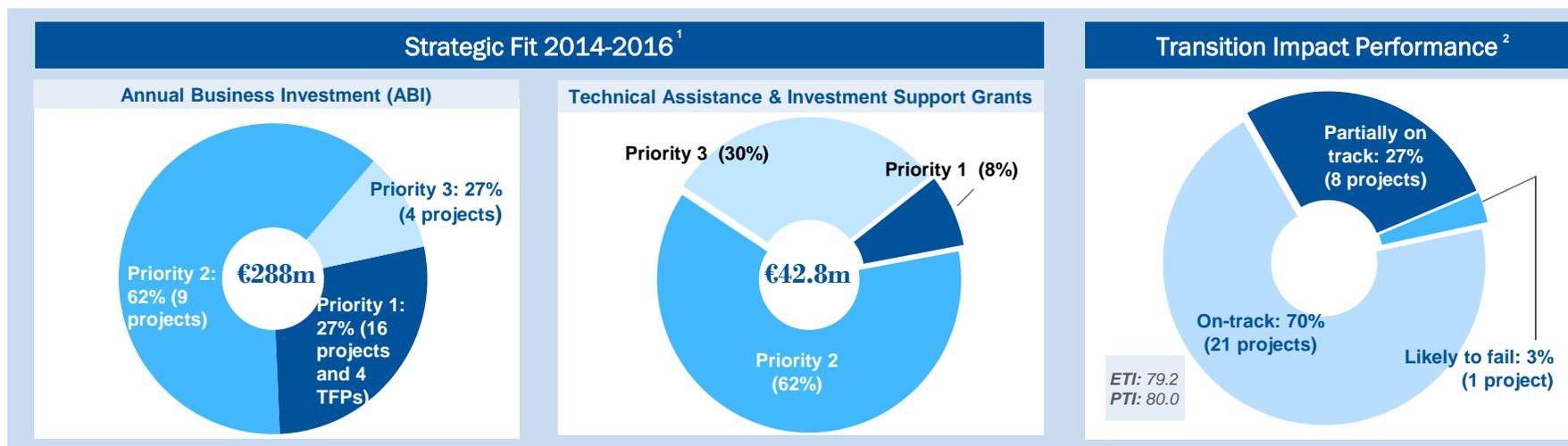
Moldova - Context figures

Population (m)	3.6	2016
GDP per capita (PPP, USD)	5,322	2016
Global Competitiveness Index (World Economic Forum, rank)	100 (out of 138)	2016-17
Unemployment (%) (National Bureau of Statistics of the Republic of Moldova)	4.2	2016
Youth unemployment (%) (National Bureau of Statistics of the Republic of Moldova)	11.2	2016
Female Labour participation (%) (National Bureau of Statistics of the Republic of Moldova)	40.1	2016
Energy intensity (TPES/GDP) (toe/thousand 2010 USD. Source: IEA)	0.47	2014
Emission intensity/GDP (kgCO2/2010 USD. Source: IEA)	1.03	2014

1. End-October 2017 data. Private sector share: cumulative Bank Investment 5 year rolling portfolio ratio

1. Implementation of Previous Strategy – 2014-2017

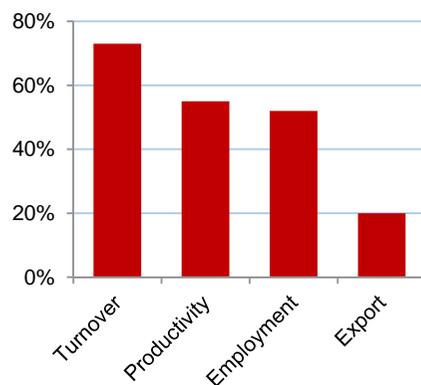
1.1. Key Transition Results Achieved during Previous Strategy Period



Priority 1: Creating enabling conditions for private sector development

Advice for Small Businesses (ASB)³

% of ASB clients which increased their...



Key Transition Results

The Bank was successful in:

- **Assisting FDI:** €17.4m provided to support two international automotive companies' expanding operations in Moldova; €33.3m to five foreign-owned, export-oriented local companies to support restructuring and scaling-up.
- **Improving SME's access to funding:** Through its partner institutions, the Bank provided €30.4m to private businesses. Trade Guarantees issued for a total of €8.5m. Multi-level policy dialogue tackling transparency and governance, directly and jointly with other development partners.
- **Supporting SME capacity-building:** In 2014-2016, 226 advisory projects completed, contributing to an average median productivity increase of 11%, average median turnover increase of 21% and growing employment by 25% on average.
- **Helping improve investment climate** through technical assistance-supported policy dialogue and continued support of Economic Council of Prime Minister.

The Bank was did not reach its full potential in supporting SMEs, as it was constrained by the adverse conditions in Moldova's banking sector and the ensuing paucity of eligible partner institutions. Efforts to unlock the banking sector in concert with IMF, EU and other IFIs will continue in the new strategy period.

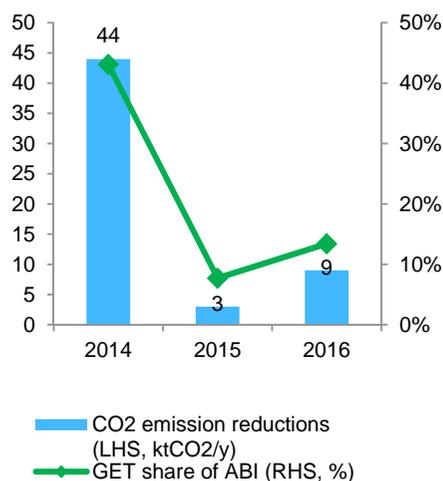
1. Strategic priorities 2014-2016: 1) Private Sector Development' 2) Standards and Regional Integration; 3) Commercialisation of municipal enterprises.
2. Data as of end-2016. Transition impact performance reflects how likely projects are to achieve the transition impact that was expected of them at signing.
3. Evaluated projects 2014-2016

1. Implementation of Previous Strategy – 2014-2017

1.1. Key Transition Results Achieved during Previous Strategy Period

Priority 2: Promoting European standards and regional integration

Green Economy Transition



Key Transition Results

The Bank achieved tangible results in:

- **Promoting European standards:** provided a €10m loan to a local bank under the EU4Business-EBRD Credit line Programme that will help domestic SMEs converge with EU quality standards to take full advantage of DCFTA opportunities.
- **Strengthening energy security:** jointly with the EU and EIB, extended a €41m loan in support of the Chisinau-Ungheni (Romania) gas pipeline that will increase interconnections with the EU, enhance Moldova's energy security and promote competition in the gas sector. The project entailed development of a comprehensive Energy Sector Action Plan through a joint effort by EBRD, EIB, EU, the Energy Community Secretariat and the Moldovan authorities.
- **Improving road infrastructure:** provided €87m in loans to continue with the road rehabilitation; supported the road maintenance sector reform.

The Bank was less effective in the **implementation** of its infrastructure projects, which has remained constrained by limited local implementation capacity and complex procedural requirements. Accelerating implementation of already signed projects will be an important task in the new strategy period.

Priority 3: Enhancing commercialisation and sustainability of municipal enterprises

Key Transition Results

Progress in promoting private sector participation and efficiency in municipal infrastructure, in particular in the **urban transport sector:**

- Helping Balti Trolleybus company implement Public Service Contract, realise efficiency gains (staff and electricity use), upgrade fleet through competitive tenders.
- Launching projects to regionalize water/wastewater services and attract a private operator while improving access to potable water for ca. 130,000 people, as well as upgrade district heating services and connect ca. 46,000 people.
- Providing training for national trade and public procurement authorities, launching a pilot electronic procurement project.

The Bank remains constrained in its ability to engage with Moldova's second-tier municipalities, largely due to borrowing restrictions.

1. Implementation of Previous Strategy – 2014-2017

1.2. Challenges to Implementation and Key Lessons

Context for implementation: Banking crisis in 2014-2015, political instability and governance challenges undermined confidence and resulted in macroeconomic volatility. Emigration amplified skills shortages, affected labour-intensive FDI and growth. In 2016, the IMF programme and DCFTA emerged as external reform anchors. Privatisation held back by low investor interest. Lack of shareholder transparency and governance challenges in main banks affected EBRD's ability to reach out to a broad client base, as three largest banks representing two-thirds of the sector's assets are under special supervision / administration of the central bank. The EBRD channelled MSME support mainly through two healthy partner banks. EBRD directly supported bankable corporates, including FDI in the Free Economic Zones, although corporate lending remains constrained by the structure of the private sector and dearth of private investment. EBRD supported energy, transport and municipal infrastructure, although weak counterparty capacity – and more recently the sovereign borrowing headroom constraints – resulted in implementation delays. Unlocking banking sector opportunities (shareholder transparency, entry of strategic and financial investors) will remain key strategic challenge in the next strategy period. Quality and pace of implementation of public infrastructure projects remain dependent on local absorption capacity, on sovereign and municipal borrowing headroom and on the political dynamics.

Implementation Challenges and Opportunities

- Narrow economic base limits scope for engagement
- Lack of shareholder transparency and governance issues in three main banks
- Weak capacity has held back disbursements in public sector projects
- Non-sovereign municipal lending restricted to Chisinau, Balti
- While local market is small, FDI flows in re-export processing
- DCFTA, IMF programme have anchored reform progress

Key Lessons

- Unlocking banking sector is key to supporting private sector
- Enhancing implementation capacity is essential for transition delivery in infrastructure
- Procedural complexities hamper decision-making in respect to sovereign, quasi-sovereign and municipal financing
- Small domestic market has not deterred export-oriented quality FDI, mainly in FEZs, suggesting potential for building a regional manufacturing platform
- Continued alignment, joint leverage with the EU, IMF, bilateral donors is essential

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period

Moldova Main macroeconomic indicators				
	2013	2014	2015	2016
GDP growth (% y-o-y)	9.4%	4.8%	-0.4%	4.3%
CPI inflation (% avg.)	4.6%	5.1%	9.7%	6.4%
Government balance (% of GDP)	-1.9%	-1.9%	-2.3%	-2.1%
Current account balance (% of GDP)	-6.5%	-7.1%	-6.4%	-4.1%
Net FDI (% of GDP)	3.1%	3.95%	3.5%	1.5%
External debt (% of GDP)	83.9%	82.3%	98.3%	97.7%
Gross reserves (% of GDP)	35.5%	27.0%	27.0%	32.6%
Total investment to GDP (% of GDP)	23.0%	24.8%	24.1%	22.3%
General government gross debt (% of GDP)	23.4%	24.5%	27.3%	37.6%
Private sector credit (% of GDP)	42.1%	36.4%	31.3%	25.8%
Unemployment (%)	5.1%	3.9%	4.9%	4.2%
Nominal GDP (US\$bn)	8.0	8.0	6.5	6.8

Source: National statistical authorities, National Bank of Moldova, IMF Staff Report May 2017

- **Growth in the past 15 years has been driven by productivity gains.** Structural transformation from an agriculture- and industry-dominated economy to a more prominent role of services and trade in the total output provided boost to productivity. Migration-driven decline in labour force also contributed to an increase in output per worker.
- **Structural transformation has however tapered off.** The share of agriculture in the economy remains sizable and significantly larger than in more advanced European economies, often leading to volatile and unpredictable growth.
- **Economic stabilization has been underway after the 2015 recession.** Real GDP grew by 4.3% in 2016 supported by 18% year-on-year (y-o-y) real growth in agriculture. In 2016, recovery in household consumption (up by 3.6% y-o-y in real terms) and in exports of goods and services (up by 9.3% y-o-y in real terms) was partly offset by contraction in capital investment (fell by 2.8% y-o-y in real terms).
- **External and inflationary pressures have eased.** Moldovan lei stabilized in 2016-2017 (until end-April), after depreciating by 34% in 2014-2015. Official reserve assets increased from US\$ 1.8 billion at end-2015 to US\$ 2.2 billion at end-2016, lifting import coverage to approx. 6 months (also thanks to import compression). Amid tight monetary conditions and stable lei, annual CPI inflation decelerated from 9.7% in 2015 to 6.4% in 2016.
- **Macroeconomic stabilisation is supported by the new IMF programme.** In November 2016, IMF approved a US\$ 179 million three-year arrangement for Moldova aimed at improving governance and stability in the banking sector. First review was completed on 28 April 2017. According to the IMF: “The program is broadly on track, enjoys strong country ownership, and is supported by the firm commitment of policymakers to sound economic management.”
- **Longer-term prospects are uncertain** due to small size, narrow economic base, low investment, financial sector and demographic challenges. EBRD forecasts (Regional Economic Prospects, May 2017) 3% growth in 2017 and 3.5% growth in 2018.

2. Economic Context

2.2 . Key Transition Challenges¹

Competitiveness

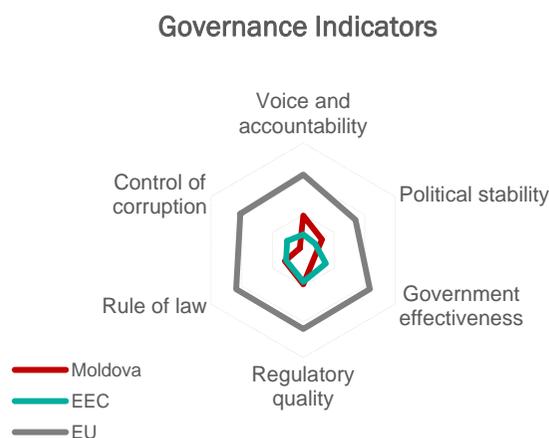
- **Small domestic market, political and economic volatility** impede investor confidence, hinder privatisation.
- **Inefficient SOEs** drain resources.
- **Low productivity** in the dominant agricultural sector lowers economy's competitiveness.
- **Emigration** depletes human capital, hinders growth.
- **Banking sector challenges** impede SMEs' access to finance and undermine confidence.
- **Low value added export** prevails.



Source: The World Bank's Doing Business 2017 Report

Governance

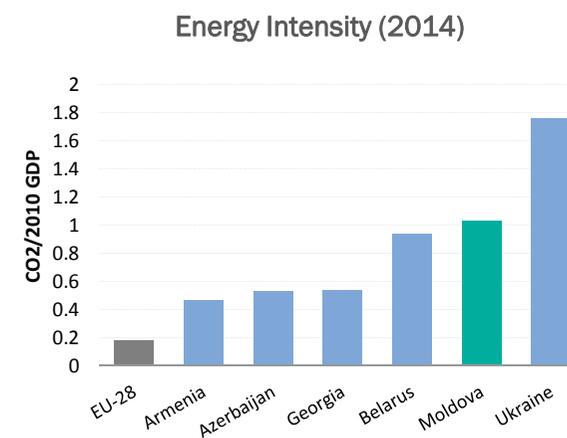
- **Informality and governance challenges** undermine investor confidence.
- **Weak rule of law and unreformed judiciary** impair business climate and perturb long-term planning.
- **Red tape** burdensome to businesses.
- **Corporate governance framework** affected by lack of internal control, deficiencies in the structure and functioning of boards.
- **Lack of transparency** in the banking sector.



Source: The World Bank's Worldwide Governance Indicators database

Green Transition

- **Energy intensity** estimated significantly higher than EU average.
- **Low level of renewables** in the energy mix.
- **Barriers to green economy investment** stem from poor access to finance, low bankability of green projects.
- **Prevalence of Soviet-era structures** holds back energy efficiency.
- **Resource-efficient technologies** mostly lacking.
- **Water tariffs** usually short of operational and maintenance costs.



Source: International Energy Agency

1. See EBRD Country Diagnostic for more details.

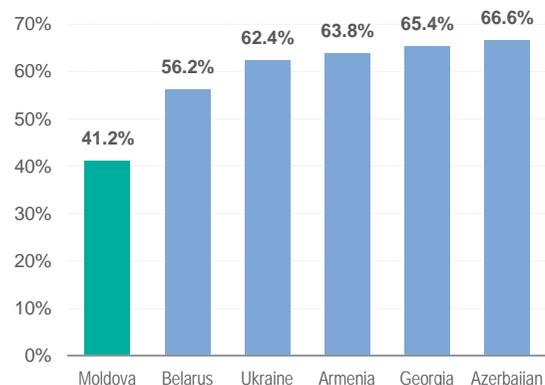
2. Economic Context

2.2 . Key Transition Challenges¹

Inclusion

- High levels of **underemployment** across various sectors.
- **Informal employment** predominant in rural agriculture.
- Low living standards lead to **large-scale emigration**.
- Unreformed education generates **skills mismatches**; school-to-work transition is slow.
- **Gender pay gap** as women hold lower-paying service sector jobs.
- Some **regional income disparities**.

Labour force participation rate (2014)

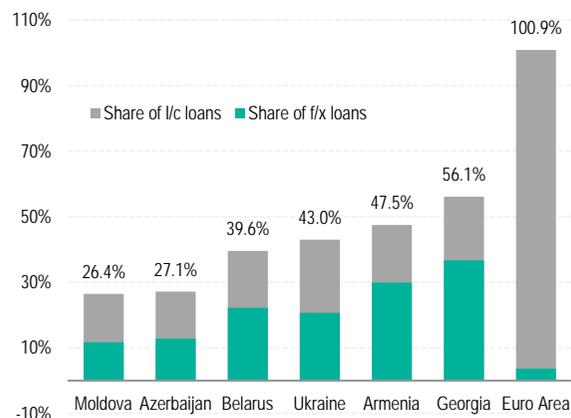


Source: World Bank, national statistical authorities

Resilience

- **Lack of shareholder transparency, weak governance and related party lending** in banks create vulnerabilities and hinder growth.
- **Low credit penetration** compared to regional peers.
- **Low level of energy security** due to dependency on one dominant foreign supplier of gas and one dominant supplier of electricity.
- **Weak economic diversification**, especially heavy reliance on primary agriculture leads to growth fluctuation.

Banking sector loans, % of GDP (2016f)

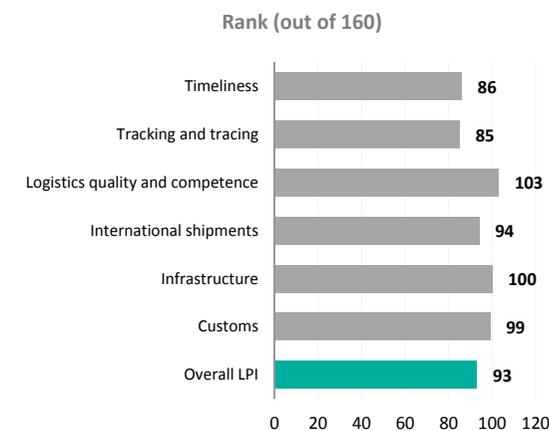


Source: Central banks, ECB

Integration

- In-country and cross-border integration hampered by **poor-quality transport infrastructure** (energy, roads, railways).
- **Weak implementation capacity** affects implementation of road projects.
- **Shortage of cross-border energy connectivity** creates vulnerabilities.
- Lack of compliance with international standards affects **exports**.
- **FDI flows** mainly into Free Economic Zones (FEZ), but remains one of the lowest in the EEC region; positive externalities of FEZ-related FDI on the rest of the economy limited.

Logistics Performance Index



Source: World Bank

1. See EBRD Country Diagnostic for more details.

3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

- Reforms under the Association Agreement (including DCFTA) with the European Union.
- Macroeconomic stability, in line with the IMF programme.
- Transparency and good governance in the financial sector.
- In-country and cross-border interconnectivity and improvement of municipal services.
- Improved business climate, promotion of competition, streamlined regulatory framework.
- Improved energy security, energy sector reforms and transparency; reduced energy consumption by increasing energy efficiency and using renewable energies; progress in implementation of the Moldova Energy Strategy-2030.
- Alignment of education system with labor market needs.
- Increased quality and the efficiency of the justice system, and fight against corruption to ensure an equitable access to public goods for all citizens.

3.2. EBRD Reform Areas Broadly Agreed with the Authorities

- Reforms of the financial sector to enforce shareholder transparency, enhance access to finance, mitigate systemic risks and bring in international investments.
- Reforms to improve the investment climate and to foster domestic and foreign investment.
- Reforms to foster energy security, efficiency and stability (natural gas, electricity sectors).
- Reforms linked to the development of the transport, logistics and trade infrastructure (railways, port, roads).
- Reforms related to the municipal and environmental infrastructure (tariff-related, energy efficiency).
- Policy dialogue to unlock investment and lending opportunities.

3.3. Key Messages from Civil Society to EBRD

- Vested interests and informality persist hampering level playing field and private sector development.
- Some concerns about progress on banks' asset recovery investigation.
- Important to inform SMEs about EU standard requirements to enable their competitiveness.
- Transparency in public procurement needs to be enhanced incl. better channels to contest decisions.
- Water security and waste management raised as major concerns.

4. Defining EBRD Moldova Country Strategy Priorities

What needs to change? (Country Diagnostics)



Can it be changed? (Section 3)



What can the Bank do? (Section 4)

Strategic Priorities (2017-2022)

What We Want to See in 2022

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> • Weak governance, opacity of ownership, imprudent practices in banking sector • Dependency on foreign monopolists for energy supply | <ul style="list-style-type: none"> • Remedial actions at the core of IMF's programme, the authorities' agenda • Subscription to EU Third Energy Package ties-in domestic sector reform | <ul style="list-style-type: none"> • EBRD uniquely positioned among IFIs to spearhead restructuring of Moldova's banks due to expertise, footprint in the sector, equity stake. • Ability to leverage existing projects to expand cross-border energy connection (gas, high-voltage) with Romania • GET expertise in renewable energy support |
| <ul style="list-style-type: none"> • Monopolistic structures, corruption, informality deter new investment • Barriers to cross-border trade, FDI among lowest in the region • SOEs and public utilities unreformed • Investors' lack of interest impedes privatisation • Underdeveloped infrastructure, logistics • Skills mismatch, human capital shortages • High energy intensity affects firms' cost structure | <ul style="list-style-type: none"> • Political stabilisation, incl. IMF programme, should help accelerate reforms • Economic Council of the Prime Minister seeks to improve business climate • DCFTA promotes best practices and standards • FDI footholds in free economic zones help improve skills; raise productivity, standards • Progressive municipalities aim to reform provision of services • Transport and Logistics Strategy for 2013-2022 | <ul style="list-style-type: none"> • Effective instruments for supporting SMEs, including those led by women (<i>deployment partly conditional on unlocking banking sector</i>) • Expertise in cross-sectoral quality and productivity improvement; advisory to export-oriented SMEs • Established relationships with foreign and domestic investors • Expertise in commercialisation of public utilities, transport reform • Affiliation with Economic Council of the Prime Minister • Variety of instruments for energy efficiency across sectors |

Improve Governance and strengthen Resilience by leading in the restructuring of the banking sector; and enhancing energy security

- Strengthened governance of banks
- Enhanced resilience of financial sector through sound practices, sustainable funding
- Expanded networks for domestic and inter-country energy connectivity
- Increased power generation from domestic renewable sources
- Improved regulatory standards to promote energy resilience

Enhance Competitiveness by supporting private firms in building capacity, and promoting commercialisation of public utilities and infrastructure.

- Enhanced productivity and efficiency through increased competition and approximation with EU quality standards in the private sector
- Expanded trade through global value chains
- Commercialisation, restructuring of public utilities and transport infrastructure
- Increased energy and resource efficiency gains realised across sectors

5. Activities and Results Framework

Priority 1: Improve Governance and strengthen Resilience by leading in the restructuring of the banking sector, and enhancing energy security

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<ul style="list-style-type: none"> • Strengthened governance of banks • Enhanced resilience of financial sector through sound practices, sustainable funding 	<ul style="list-style-type: none"> • Vigorous policy advocacy of banking sector rehabilitation in concert with IMF, EU, other development partners • Support to healthy client banks through dedicated target credit lines (MSME, DCFTA support, energy efficiency, climate finance, trade finance, risk sharing products, WiB) • Seeking expanding client bank universe (e.g., other foreign-owned banks) subject to bankability, integrity • Policy dialogue, selective co-investment with reputable investors to restore corporate governance, increase shareholders transparency, overhaul management in key banks • Selective support of bankable microfinance, leasing companies and other non-bank financial institutions 	<ul style="list-style-type: none"> • <i>Volume/growth of outstanding loans of partner financial institutions in target segment (MSME, WiB)</i> • <i>Number (or qualitative account) of clients with improved corporate governance</i>
<ul style="list-style-type: none"> • Expanded networks for domestic and inter-country energy connectivity • Increased power generation from domestic renewable sources • Improved regulatory standards to promote energy resilience 	<ul style="list-style-type: none"> • Support for new key cross-border electricity interconnections, in line with Moldova's 2030 Energy Strategy and interconnection studies • Support for power transmission networks rehabilitation and extension with a view to integrate Moldova into ENTSO-E • Support infrastructure development for a wholesale electricity market • Funding bankable-opportunities in the renewable energy sector. • Implementation of Ungheni-Chisinau gas pipeline to increase interconnections with the EU • Policy dialogue on Third Energy Package implementation (strengthening regulator, unbundling gas and electricity sectors, ensuring competitive third party access) 	<ul style="list-style-type: none"> • <i>Target infrastructure network connection extended as measured by net increase in the throughput of infrastructure capacity</i> • <i>Renewable energy added to the network (MW)</i> • <i>Regulatory and institutional frameworks improved – Third Energy package implemented</i>

5. Activities and Results Framework

Priority 2: Enhance Competitiveness by supporting private firms in building capacity, and promoting commercialisation of public utilities and infrastructure

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<ul style="list-style-type: none"> Enhanced productivity and efficiency through increased competition, approximation with EU quality standards Enhanced trade through global value chains 	<ul style="list-style-type: none"> Roll out DCFTA facility (EU4Business-EBRD Credit line) with PFIs, additional focus on women-led companies through WiB Direct cross-sector support to companies with viable core business model, good integrity to promote skills transfer, forward/backward linkages, adoption of EU standards (e.g. EHS). Potential emphasis on bankable agribusiness companies. Support to export-oriented FDI in free-trade zones, with a view to develop regional manufacturing platforms Support to best SMEs scaling-up (“Blue Ribbon programme”) Business climate improvement (including gender-responsive investment climate reform) support, including through Economic Council. 	<ul style="list-style-type: none"> # of ASB clients (incl. women led) reporting increase in productivity # of clients increasing export sales/ average increase in exports
<ul style="list-style-type: none"> Commercialisation and restructuring of public utilities and transport infrastructure 	<ul style="list-style-type: none"> Support for water/wastewater sector consolidation, private sector participation, incl. through PSCs and PPPs, where feasible. Corporate Development Programs and/or Financial and Operational Performance Improvement Programs for public utilities in conjunction with promoting sustainable, EU-compliant municipal infrastructure and services (incl. solid waste) Support for sustainable rehabilitation of key transport infrastructure, as per 2013-2022 Transport and Logistics Strategy, including roads, railway modernisation Policy dialogue on tariff reform, procurement, sustainable practices, transparency and governance in municipal services On a selective basis, explore pre-privatisation and privatisation support opportunities 	<ul style="list-style-type: none"> # of clients improving their performance or efficiency metrics after commercialisation/restructuring # of clients introducing improved standards as targeted
<ul style="list-style-type: none"> Increased energy and resource efficiency gains realised across sectors 	<ul style="list-style-type: none"> Direct energy efficiency investments, development of Energy Performance Contracts Energy/resources efficiency, climate resilience facilities to partner financial institutions Support for energy efficiency in municipal sector incl. under the Green Cities framework Consider supporting the development of energy service companies 	<ul style="list-style-type: none"> Energy saved (GJ/y) #/Vol of sub-loans disbursed by PFIs in target segment (EE, RE)

6. Mapping of International Partners Complementarity in EBRD Business Areas



European Bank
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		EBRD BUSINESS AREAS																				
		Sectors												Cross-Cutting Themes								
		Corporate				Energy		Infrastructure				Financial				Green Transition		Inclusion				
		Agribusiness	General Industry	Real Estate	ICT	Natural Resources	Electric Power	Water and Wastewater	Urban Transport	Roads	Railways	Banking	Insurance and other financial services	MSME Finance	Private Equity	Capital Markets	Water Efficiency	Materials Efficiency	Sustainable Energy	Gender	Youth	Region
Indicative annual investment/grants (2014-2016 average, excluding budget support, € million)																						
EU	93	Ⓟ				Ⓟ	Ⓟ	Ⓟ	Ⓟ	Ⓟ	Ⓟ	Ⓟ		€			€	€	€	€	€	
World Bank/IFC	82	€	Ⓟ				Ⓟ			Ⓟ		Ⓟ		€					Ⓟ			Ⓟ
EIB	74	€				Ⓟ	Ⓟ	Ⓟ	€	Ⓟ	Ⓟ			€			€					
<i>EBRD (future)</i>	96	Ⓟ	€			Ⓟ	Ⓟ	Ⓟ	€	Ⓟ	Ⓟ	Ⓟ	€	€			€	€	€	€		

Areas for future cooperation



Governance and Resilience

Close cooperation with the IMF and EU to strengthen the resilience and governance of the banking sector.

Work together with EIB and EU to help strengthen energy security.



Competitiveness

Work together with the EIB, EU and WB to improve municipal services and transport infrastructure.

Collaborate with EIB and EU to enable energy efficiency in residential buildings.

€	Area of significant investments	●	Focus mostly on private sector
P	Area of significant policy dialogue	○	Focus mostly on public sector

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2014.

7. Implementation Risks and Environmental and Social Implications

Risks to the Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> ▪ Vulnerability to political developments: political timeline, including parliamentary elections in H2 2018, may interfere with the Reform Agenda to the detriment of the Country Strategy implementation. Interdependencies between domestic politics and private sector dynamics may create adverse feedback loops. 			<ul style="list-style-type: none"> • Assessment and Management of E&S Impacts, Stakeholder Engagement: Ensure that direct, indirect, cumulative and transboundary E&S impacts of projects¹ are appropriately assessed and mitigated, and that meaningful stakeholder engagement is carried out. Private and public clients and the government can benefit from environmental and safety capacity building to ensure adoption of best international practice.
<ul style="list-style-type: none"> ▪ Dependence on external reform drivers: the strategy leverages such enablers as the IMF programme and the EU approximation (DCFTA). Should either (or both) of these “anchors” slip, implementation of the strategy will likely suffer. 			<ul style="list-style-type: none"> • Labour and Working Conditions: Ensure that clients’ HR policies and labour practices comply with EBRD requirements, address potential discrimination in the work place, and promote equal opportunities.
<ul style="list-style-type: none"> ▪ Weak institutional capacity and limited public sector borrowing headroom: key public entities responsible for the conceptualization and implementation of public infrastructure schemes lack capacity, while articulation of the government infrastructure priorities involves multiple stakeholders, thus potentially inhibiting orderly implementation of the strategy; limited sovereign and municipal borrowing headroom is a potential constraint 			<ul style="list-style-type: none"> • Resource Efficiency and Pollution Prevention and Control: Ensure compliance with EU environmental standards in line with EBRD PR3 and Moldova’s EU Association Agreement provisions. Projects in agribusiness sector shall not contribute to land degradation, erosion and loss of soil fertility that are currently affecting the country’s resources.
<ul style="list-style-type: none"> ▪ Investment climate and governance-related risks: insufficient regulatory and judicial framework and weak governance deter FDI and inhibit local companies, which might shrink the universe of direct investment and lending opportunities in the financial and real sectors. 			<ul style="list-style-type: none"> • Health and Safety: Assist in improvement of occupational and community health and safety across projects, especially where construction is involved. TC funds may be required to continue with implementation of road safety programmes supported by the Bank. • Land Acquisition, Involuntary Resettlement and Economic Displacement: Infrastructure projects may require acquisition of land and properties. Clients will need to ensure compensation and livelihood restoration are provided in accordance with the Bank’s requirements. Special attention may be needed involving resettlement or displacement of informal land users and vulnerable groups. • Biodiversity Conservation and Sustainable Management of Living Natural Resources: Energy, infrastructure and agricultural projects may have impacts through encroaching or fragmenting sensitive habitats, protected areas and other valuable habitats and biodiversity, as well as contribute to land degradation and deforestation. Ensure robust biodiversity assessments of projects to minimise impacts, especially on main rivers and near Important Bird Areas and migration routes. • Cultural Heritage: Ensure appropriate assessment processes to identify and consult with key stakeholders to protect cultural heritage, and implement chance finds procedures for all projects involving construction activities.

8. Donor Co-Financing Assessment

8.1. Grant Needs Assessment for the New Country Strategy Period

Grant funding will be required to achieve the strategic objectives for 2022, which will include support for:

- Improvements in road, energy and municipal and environmental infrastructure
- Credit lines through eligible commercial banks (e.g. EU4Business grant funding from the EU etc)
- Policy dialogue to foster the economic reform agenda, including investment climate and good governance
- Supporting the capacity of the financial sector
- Overall SME sector support, including a focus on women-led companies
- Projects aiming at improving energy efficiency across sectors

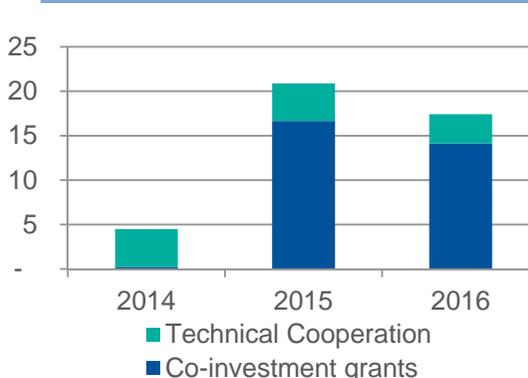
8.2. Potential Sources for Grant Funds

- The **EU** will remain a very important source of grant funding and multiple funding instruments are in use in the existing EBRD-EU cooperation in Moldova. The main facility is the Neighbourhood Investment Facility East.
- EBRD will further explore opportunities to access the funding from the **Green Climate Fund** and the **Global Environment Facility**.
- There is also potential **bilateral donor** support for the EBRD in Moldova, including from Italy, Luxembourg, Sweden, Switzerland, Taipei China, UK and USA. The EBRD will continue to explore partnership with these and other potential bilateral donors.
- **The EBRD Small Business Impact Fund (SBIF) and SME Local Currency Special Fund** will continue to be used to help SME development in the country.
- The **E5P** (Eastern Europe Energy Efficiency and Environment Partnership) is another source of grant funding for Moldova.
- The EBRD's **SSF** is also an important grant provider.

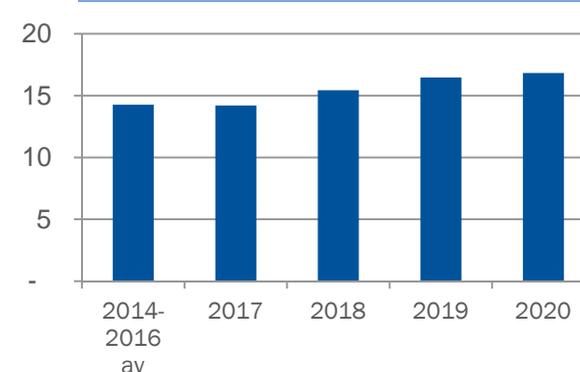
Selected Affordability Indicators as of 2016

		EBRD regional percentile rank ¹
GDP per capita (PPP, current int. \$) ²	5,328	6 th
Average transition gap	N/A	28 th
ODA Country	YES	N/A
ODA as share of GNI (%) ³	4.5	78 th
ODA per capita (USD-current prices) ³	87.9	57 th

Donor finance during last strategy (€m)²



Grant Needs Projection (€m)³



Sources: ²IMF (2016), ³ OECD (2015)

1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in case of ODA indicators) that are represented below Moldova.

2. The 2014-2015 TC data is based on Commitments as at the end of March 2016 (the latest available date before data migration in a new Donor Funds System). 2016 TC data is based on 2016 earmarks at the project level. Donor financed parallel loans are not included. 3. Subject to revisions dependent on the project pipeline-related grant needs.

ANNEXES

Annex – 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.

Since the adoption of the last country strategy in 2014, the Moldovan authorities have continued to emphasise the reform agenda driven by Moldova's ambition of European integration. Having met all the benchmarks, Moldova became the first Eastern European country to qualify for visa liberalisation with the EU in April 2014. A landmark Association Agreement, including DCFTA, between Moldova and the EU was signed in June 2014 and, after a period of provisional application since September 2014, fully entered into force in July 2016. The Agreement had put in place an important additional framework for political and economic reforms.

The reform progress, however, has been uneven and derailed by protracted political instability following the last parliamentary elections in November 2014 and by significant vulnerabilities related to the functioning of state institutions, independent agencies and the rule of law. Problems in these areas were highlighted by a major bank fraud in 2015 involving three large banks in the country.

Since the establishment of a new coalition government in January 2016, political stability has strengthened. Nevertheless, domestic political tensions in the run up to the 2018 parliamentary elections, including along geopolitical lines, as well as external pressures make the achieved stability fragile. While a comprehensive settlement remains to be reached, the unresolved Transdniestrian conflict is an additional risk factor for Moldova's stability, particularly in the context of the changed geopolitical environment.

Serious challenges remain, in particular related to addressing the politicization of state institutions, improving the rule of law and access to justice, and combating systemic corruption. A number of legislative acts have been adopted since 2016, aimed at tackling the persisting vulnerabilities. The manner in which these laws are implemented will determine whether the goals are achieved. Building trust between the government and society is also an important task.

Annex – Political Assessment

Free Elections and Representative Government

Free, fair and competitive elections

The Constitution of the Republic of Moldova provides citizens with the right to change their government through periodic elections based on universal suffrage. The existing legal framework generally provides an adequate basis for conducting democratic elections.

The last parliamentary elections took place in November 2014, on the basis of proportional representation in a single nation-wide constituency. The OSCE/ODIHR-led International Election Observation Mission (IEOM) concluded that the elections “offered voters a wide choice of political alternatives” and “the election administration enjoyed the confidence of most stakeholders and the process was generally well administered”, but also noted that “the campaign was influenced by the country’s geopolitical aspirations” and that “the late deregistration of one electoral contestant raised questions about timing and circumstances”(1).

The next parliamentary elections are due at the end of 2018. . The recent amendments to the electoral system, implemented by the authorities and aimed at shifting from a proportional to a mixed system, have been resisted by Moldovan political opposition and large part of civil society and have raised concerns of Moldova’s international partners. The Council of Europe Venice Commission and the OSCE/ODIHR concluded that the change was not advisable in the current political context. (2)

The last presidential election was held in two rounds in October-November 2016. This was Moldova’s first direct presidential election in 20 years, following the controversial March 2016 decision of the Constitutional Court reintroducing the direct vote. The OSCE/ODIHR assessed the election as “competitive, with respect for fundamental freedoms”, while noting that the process was marred by abuse of administrative resources, lack of campaign finance transparency and unbalanced media coverage. (3)

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- 1) The Venice Commission and OSCE/ODIHR: Joint Opinion on the Draft Laws on Amending and Completing Certain Legislative Acts (Electoral System for the Election of the Parliament), Strasbourg/Warsaw, 19 June 2017, pp. 4-5.
 - 2) OSCE/ODIHR Election Observation Mission: Republic of Moldova, Presidential Election, 30 October 2016 and 13 November 2016, Final Report, 15 February 2017, p. 1.
 - 3) PACE, Honouring of obligations and commitments by the Republic of Moldova, Information note by the co-rapporteurs, 13 July 2015, p. 1.

Annex – Political Assessment

Separation of powers and effective checks and balances

Moldova is a parliamentary republic, with executive powers exercised by the government headed by the prime minister. Legislative power is vested in the 101-member National Assembly (parliament). The president is the head of state whose constitutional powers are limited but whose public legitimacy has increased following the reintroduction of the direct vote in 2016. The latter could bring more balance in the system of checks and balances, but this has also created new tensions over executive powers and the country's geopolitical orientation. At present, the government and the president represent opposing political camps while the tradition of cohabitation is nascent. State institutions and law enforcement are often politicised and enjoy low people's trust. A major bank fraud in 2015 raised serious questions about the functioning of state institutions and independent agencies. (4)

Effective power to govern of elected officials

Moldova has put in place institutional and legal arrangements for elected officials to exercise their power to govern. There has long been, however, a close relationship between business and political elites, and business interests have had significant influence over the country's political life and decision-making. The accountability of elected officials has been a subject of concern by international monitoring bodies. (5)

Civil society, Media and Participation

Scale and independence of civil society

Civil society organisations operate on the basis of a satisfactory legal framework, which provide the necessary rights and guidelines. Moldova's civil society has been growing in scale. The number of registered CSOs has reached over 11,000, with main activities encompassing education and training, social services, community development, civic participation and advocacy, health, youth and culture. However, only about a quarter of these organisations are believed to be active. CSOs' financial viability has been improving, but funding sources remain largely limited to foreign donors. In July 2016, a law was adopted to allow individual taxpayers to direct 2% of their income tax to non-commercial associations and religious organisations. The recent initiative by the Ministry of Justice seen as restricting financing to CSOs and adding to their financial reporting has, however, become a cause for CSOs' concern. Generally, CSOs report the worsening of their operational environment.

Independence and pluralism of media operating without censorship

The existing legal framework is largely in line with international standards and guarantees media freedom. The media landscape is generally characterised by a considerable number of outlets operating in a limited advertising market dependent on subsidies and revenues from political and business affiliates. While television is the most important source of information, major television stations are owned by political and business interests and are strongly associated with major political parties. The concentration of media ownership and polarisation are subjects of concern. The concentration of ownership diminishes political pluralism, especially on television, and journalists are exposed to pressure from media owners. The few outlets considered to be independent are struggling to survive (6). Moldova has fallen in the Reporters without Borders' Press Freedom Index over the past two years from 56th in 2014 to 76th in 2016. The law limiting concentration of media ownership was adopted in 2016, but it is expected to become fully effective after the expiration of current licences, and meanwhile media outlets continue to operate under the current conditions. There is no interference in Internet freedom, and online news sources increasingly contribute to more pluralism in the media sphere.

4) PACE, Honouring of obligations and commitments by the Republic of Moldova, Information note by the co-rapporteurs, 13 July 2015, p. 1.

5) EU Council Conclusions on the Republic of Moldova, 15 February 2016, paragraph 11

6) OSCE/ODIHR Election Observation Mission, Republic of Moldova, Presidential Election, 30 October 2016 and 13 November 2016, Final Report, 15 February 2017, p. 3, 18-20; PACE monitoring co-rapporteurs visit, 4 July 2016; Joint statement following the third Association Council between the EU and Moldova, 31 March 2017, p. 2.

Annex – Political Assessment

Multiple channels of civic and political participation

Moldovan citizens generally enjoy multiple channels of civic and political participation. However, dialogue and cooperation between state institutions and civil society is not sufficiently robust. The National Participation Council, which is meant to enable civil society to participate in decision-making at national level, has resumed its work in 2017 after being inactive for over two years. Nevertheless, an enhanced civil society participation in the public policy and decision-making processes, including public consultation with civil society, remains an important task (7), as well as building trust between the government and civil society.

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is guaranteed by the Constitution and implemented in practice. Considerable number of parties exists, and opposition parties are able to campaign freely and oppose government initiatives. 21 political parties and one electoral bloc contested in the last general elections. Five are represented in the current parliament. Challenges, however, remain related to the transparency of party financing. (8)

Rule of Law and Access to Justice

Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. The right to a fair trial and freedom from arbitrary arrest or detention is envisaged in the legislation, although the lack of independence of the judiciary and prosecution undermine this right.

Independence of the judiciary

While the Constitution provides for the independence of the judiciary, concerns exist related to the actual practice. The judiciary is perceived as affected by political and business influences. These all undermine the effective administration of justice (9). Strengthening the independence of the judiciary and law enforcement agencies and the fight against corruption within the judiciary were identified as priority matters for the Moldova-EU cooperation. (10)

Government and citizens equally subject to the law

The Constitution guarantees the equality of all citizens before the law. In practice, however, the effective administration of justice, in particular the independence, effectiveness, transparency and accountability of the judiciary and the functioning of prosecution, need to be enhanced. A new law on the Prosecution Service entered into force in August 2016 containing measures aimed at strengthening the independence of the prosecution service, in line with recommendations of the Venice Commission of the Council of Europe. The manner in which this law is implemented will ultimately determine whether the goal is achieved. (11)

7) EU Association Implementation Report on the Republic of Moldova, 10 March 2017, p. 4; Joint press release following the Second Association Council meeting between the EU and the Republic of Moldova, 14 March 2016.

8) GRECO Third Evaluation Round on Transparency of Party Funding, Second Compliance Report on Moldova, 27 March 2015, and Addendum, 4 December 2015.

9) GRECO Fourth Evaluation Round, Corruption prevention in respect of members of parliament, judges and prosecutors, Evaluation report, 1 July 2016, p. 1; UN Human Rights Committee, Concluding observations on the third periodic report of the Republic of Moldova, 18 November 2016, p. 6.

10) EU Council Conclusions on the Republic of Moldova, 15 February 2016; PACE monitoring co-rapporteurs visit to Moldova, 4 July 2016; Joint statement following the third Association Council meeting between the EU and Moldova, 31 March 2017, p. 2.

11) GRECO Fourth Evaluation Round, Corruption prevention in respect of members of parliament, judges and prosecutors, Evaluation report, 1 July 2016, p. 1.

Annex – Political Assessment

Effective policies and institutions to prevent corruption

Endemic corruption remains a serious issue in Moldova. In the society, there is a perception of prevalent corruption among high-level officials (12). Transparency International ranks Moldova 123rd out of 176 countries on its 2016 Corruption Perceptions Index, which is a drop of 20 positions compared to 2015 when Moldova ranked 103rd out of 167 countries. (13)

Effective implementation of the legislative and policy framework for the fight against corruption remains problematic and the main institutions in charge of fighting corruption, such as the National Anti-Corruption Centre, suffer from weak capacities and a lack of independence (14). In March 2017, the parliament adopted the new National Anti-Corruption Strategy for 2017-2020, replacing the previous one for 2011-2015 and containing 130 measures aimed at combatting corruption at all levels and at strengthening relevant specialised institutions.

Civil and Political Rights

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

As member of the UN, the Council of Europe and the OSCE and being in the Association Agreement with the EU, Moldova is party to almost all core international human rights treaties. As a result, Moldova has developed a strong national legal basis for the protection of civil and political rights.

The latest assessment of the track record of Moldova in the area of human rights in the framework of the 2nd UN Universal Periodic Review was adopted in 2017. Moldova has accepted 175 out of 209 recommendations, noting 3 and deferring 31 for subsequent examination (15). The 2011-2014 National Human Rights Action Plan, the 2nd one adopted by Moldova, has not been fully implemented and a new has yet to be adopted.

Political inclusiveness for women, ethnic and other minorities

Moldova has ratified most international human rights treaties, including the Convention on the Elimination of All Forms of Discrimination against Women and the European Convention on Gender Equality. These are reflected in the national legal framework. In line with the Anti-Discrimination Law of 2012, the Equality Council was created in 2014, although its powers are limited. Further measures were adopted in 2016 to promote gender equality and to combat domestic violence and discrimination, including the adoption of a Strategy on Inclusive Diversity for the period 2016-2026. A quota was set to make sure that women account for at least 40% of candidates in central and local elections, public administration and those holding leadership positions in political parties. Although women comprise 22.8% of MPs and 22.2% of ministers (there are 4 female ministers in the current 18-member Cabinet of Ministers), they nevertheless remain underrepresented in parliament and in decision-making positions within the government (16). Domestic violence against women and children remains widespread (17). In February 2017, Moldova signed the Council of Europe Convention on preventing and combating violence against women and domestic violence.

12) PACE, Honouring of obligations and commitments by the Republic of Moldova, Information note by the co-rapporteurs, 13 July 2015, p. 5; EU Association Implementation Report on the Republic of Moldova, 10 March 2017, p. 5.

13) Transparency International, 2016 and 2015 Corruption Perceptions Index.

14) GRECO, Fourth Evaluation Round, Corruption prevention in respect of members of parliament, judges and prosecutors, Evaluation report, 1 July 2016, p. 1; PACE, Honouring of obligations and commitments by the Republic of Moldova, Information note by the co-rapporteurs, 13 July 2015, p. 8.

15) UN Human Rights Council, Report of the Working Group on the Universal Periodic Review, Republic of Moldova, 28 February 2017.

16) UN Human Rights Committee, Concluding observations on the third periodic report of the Republic of Moldova, 18 November 2016, p. 3.

17) EU Association Implementation Report on the Republic of Moldova, 10 March 2017, p. 4.

Annex – Political Assessment

Moldova is a multi-ethnic society. In recent years, further steps have been taken to promote the integration of persons belonging to national minorities. In particular, the government adopted in December 2016 the Strategy for the Consolidation of Interethnic Relations in the Republic of Moldova for 2017-2027, welcomed by ethnic minorities. An Action Plan on the Strategy implementation is being developed. With regard to the relationship between the central government and the Autonomous Territorial Unit of Gagauzia, a joint working group had been established to develop legislative initiatives to address the structural problems caused by unclear legal and constitutional framework (18). The Moldovan parliament is in the process of adopting legislative amendments.

Freedom from harassment, intimidation and torture

While concerns remain over reports of alleged instances of torture and ill-treatment, in particular by police, recently the Moldovan authorities have taken steps to strengthen the legal protection against torture and ill-treatment (19). The law on the rehabilitation of victims of torture was adopted in September 2016. The National Preventive Mechanism Against Torture resumed its activities in December 2016. Concerns, however, have been recently raised related to certain restrictions and legal decisions, which could be seen as amounting to political harassment (20).

18) PACE, Honouring of obligations and commitments by the Republic of Moldova, Information note by the co-rapporteurs, 13 July 2015, pp. 5-6.

19) UN Human Rights Committee, Concluding observations on the third periodic report of the Republic of Moldova, 18 November 2016, p. 5; Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Visit to Moldova from 14 to 25 September 2015, published on 30 June 2016.

20) PACE, Press-release following monitoring co-rapporteurs visit to Moldova, 4 July 2016.