



As at 31 December 2005, the European Bank for Reconstruction and Development (EBRD) had signed 27 investments in Moldova, totalling €209 million. This has helped to generate €125 million from other sources. A total of 61 per cent of investments are in the private sector.

## EBRD investment

Moldova is part of the EBRD's Early Transition Countries (ETC) Initiative, which aims to increase investments in the Bank's seven poorest countries.

New operations in 2005 were concentrated in the financial and agribusiness sectors. Projects included two small and medium-sized enterprise (SME) credit lines, a microfinance credit line, a trade facilitation expansion and three operations under a new Medium-Sized Co-Financing Facility: two loans to a metal company and a confectionary producer and a credit line to Mobiasbanca.

The Bank also made an equity investment in a cannery to finance expansion into frozen fruit and vegetable production.

## Strategic priorities

The latest country strategy for Moldova was approved by the EBRD in July 2005.

### Financial institutions

The EBRD will continue to provide SME and micro and small enterprise (MSE) credit lines and to implement its Trade Facilitation Programme (TFP) and Medium-sized Co-financing Facility (MCFF) with local banks. The Bank will

seek to work with new partner banks and to assist in the development and promotion of new financial instruments, such as mortgage financing or leasing.

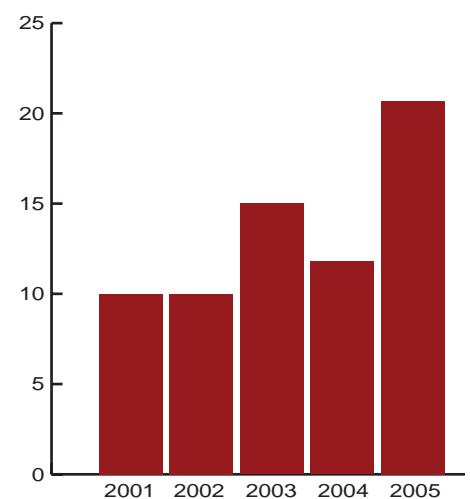
On the equity side, the Bank may assist in the privatisation of Banca de Economii and consider investment in leasing companies and mortgage providers. The Bank will further enhance its support for the development of micro-finance. In order to support the development of Moldova's regions, the EBRD will include a regional component in its micro-finance programmes. The Bank will explore opportunities to support, through both technical assistance and investment, the emergence of the non-banking financial sector.

### Private enterprise

The Bank will continue to pursue investment opportunities in all enterprise sectors including food processing, manufacturing, retail and property sectors. Larger companies will be provided with direct financing through Early Transition Countries (ETC) Initiative instruments such as the MCFF and the Direct Investment Facility (DIF).

The EBRD will facilitate foreign direct investment (FDI) by investing alongside foreign strategic investors

EBRD investments by year (€ mil)



## Background information

### Political focus

The ruling Communist Party of Moldova (CPM) has been gradually drifting towards the political centre, while adopting an increasingly pro-Western stance. This shift helped the CPM to hold on to its parliamentary majority in elections in March 2005, albeit with a reduced majority. The new parliament re-elected CPM leader President Vladimir Voronin in April. Mr Voronin is implementing an increasingly pro-Western foreign policy.

### Economic outlook and risks

The recent deterioration of economic relations with Russia, which have resulted in increased barriers to agricultural exports and higher energy prices, has highlighted the need for economic diversification in Moldova. The economy remains vulnerable to external shocks and heavily dependent on remittances from workers living abroad, as well as agriculture and related industries.

In the absence of substantial productivity gains, economic growth in the short term could be hindered by rising energy costs and the inability to diversify export markets. Additionally, prudent macroeconomic policies and restructuring of bilateral debt could contain the external debt burden. Long-term prospects, however, will depend on the effective implementation of the reform agenda outlined in the Economic Growth and Poverty Reduction Strategy and the EU-Moldova Action Plan. Durable growth depends on improvements in the competitiveness of Moldovan products and the successful diversification of export markets.

### Transition challenges

Moldova will need to address the following transition challenges:

- establish fair competition and improve the investment climate
- support economic diversification
- redress the balance between the capital and the regions
- advance energy and municipal sector reform
- ensure debt sustainability.

### In numbers

Population (millions)	3.9
GDP per capita (US\$)	2,170
GDP Growth (%)	6.5
Inflation (%)	12.0
Foreign Direct Investment (US\$ millions)	120
Transition Indicator (average of nine EBRD transition scores)	2.85

All data comes from the EBRD Transition report 2005 and are at end of 2005  
Highest indicator score possible: 4.33

and by assisting the development of local companies which in due course may attract foreign investment. Working capital will be provided to agribusiness companies through a warehouse receipt system.

### The Bank will continue to provide management and technical support to private enterprises through its TurnAround Management (TAM) and Business Advisory Services (BAS) programmes.

In 2005 the TAM Programme carried out six projects in Moldova utilising €0.5 million of donor funds from Japan, Switzerland and the EBRD ETC Fund.

The BAS Programme in Moldova, started in 2005, received €0.6 million from the EBRD ETC Fund and carried out 16 projects.

### Infrastructure

The EBRD will primarily seek to support private infrastructure investments.

The Bank will continue policy dialogue on the investment climate, enterprise restructuring and rule of law in consultation with other international financial institutions (IFIs) and bilateral donors.

The EBRD will ensure that all operations in Moldova are subject to the Bank's environmental policies and procedures.

### ETC Initiative

Through the Early Transition Countries Initiative, the Bank will seek increased donor financing to fund project preparation and implementation, to support legal transition work, institution building and policy dialogue and to mobilise EBRD support for key sectors.

## Sector focus

### Financial sector

The Bank will continue to provide financial support to local banks through new credit lines, the TFP and MCFF. The EBRD will play an active role in the development of non-bank financial activities, such as leasing and mortgage financing.

### Enterprise sector

The EBRD will seek to directly support private sector enterprises in all sectors by providing financing and/or equity through the DIF. The Bank will continue to support SMEs through local financial intermediaries, including risk sharing under the MCFF. The Bank will also seek to establish a Warehouse Receipts Programme in close co-operation with the authorities, donors and local banks.

### Policy dialogue

The Bank will continue its dialogue with the national authorities, in co-ordination with the other IFIs, on the banking sector (particularly with respect to corporate governance, transparent ownership and fit and proper standards) and actions needed to improve the business environment.

### Portfolio ratio

The project pipeline currently contains only private sector operations, which should further increase the private sector portfolio ratio above the target of 60 per cent.

## Airport modernisation project



Chisinau International Airport, the largest and busiest in Moldova, has been refurbished with the help of an EBRD loan. The airport is the principal gateway for international flights, providing immigration, customs control, aeronautical security and other aircraft services. The modernised terminal now has an upgraded infrastructure with new furniture and equipment, an improved access road, car parking and terminal surroundings, and restructured passenger flow arrangements to accommodate growth in international traffic.

EBRD financing helped to remove the critical transport bottlenecks, to integrate Moldova into the international civil aviation network by attracting Western airlines into the market, and to promote economic development by facilitating commercial arrangements and international contacts. The project established modern commercial business operations at the airport, through the introduction of cost accounting and management information systems. It also improved corporate standards by making airport operations more transparent and accountable, bringing benefits for competition and the business environment in Moldova.

## EBRD commitments by sector



## ProCredit Moldova

The EBRD, together with co-financiers including the International Finance Corporation (IFC), Western NIS Enterprise Fund, IMI AG and DOEN Foundation, supported with an equity investment and a loan the creation and development of ProCredit. ProCredit aims to underpin the development of micro and small enterprises (MSEs) in Moldova by offering small loans of up to US\$ 50,000 and micro loans of up to US\$ 10,000 on commercial terms. The institution concentrates on the lower end of the MSE market (loans average less than US\$ 5,000), offering loans with maturities from three months to two years. ProCredit's long-term goal is to develop into a genuine "house bank" for MSEs by offering them a full range of financial services, such as current accounts and savings and time deposits.

The project aims to bridge the gap between supply and demand for institutional finance to MSEs in Moldova. Insufficient funds are available for most MSEs, due largely to lack of development of this area of the banking sector. ProCredit will demonstrate to other banks the potential of the MSE sector.

## Electrocutions prompt safety campaign



Pavel Perciuleac, an electrical inspector in the village of Ciopleni outside Moldova's capital city of Chisinau, recalls the latest electrocution in his district as though it happened to his own children.

"Katerina (eight), Mihael (seven) and Vera (six) were playing with their cousin, also six. Eventually the cousin, the youngest, went upstairs and got too close to a live electrical unit. He didn't touch it but the power was so strong, it formed an electric arc through him, very badly wounding his shoulder where it went into his body, then exiting from under his knee. Luckily, the force threw him away from the transformer. Somehow, he survived. The other children helped him down the ladder – I don't know how -- and got him home. The next day he was running around the hospital, playing."

Poverty begets electrocution in Moldova, particularly in the rural areas where villagers get by on half the national income of \$100/month, if they're lucky enough to have cash income. "People expose themselves to danger by trying to steal electricity through illegal hook-ups to power lines or stealing copper and aluminium wire, transmission lines, even doors off transformers to sell to scrap metal dealers," says Silvia Radu, corporate vice-president of the privately-owned power utility Union Fenosa, to which the EBRD has loaned €25 million.

Union Fenosa focuses its maintenance and upgrading programme on those areas where accidents happen most often. But when it came to educating the public to keep away from electrical facilities, Ms Radu said the government had to play its part. "We have the EBRD and the Canadian government to thank for bringing all of us together – government, utilities, schools and the media – to address this problem," says Ms Radu.

An Electrical Safety Awareness Week focused on schoolchildren kicked off in November with a wildly successful poster contest. A teacher training programme and colourful, easy-to-understand safety posters were developed by consultants funded by the Canadian International Development Agency (CIDA) via the EBRD.

The campaign reaches kids through their teachers, and parents through their kids: children accounted for 20 out of 47 accidents in the Moldovan power sector in 2004, according to government statistics, and 8 of 33 deaths.

## Contacts

### Resident office

Room 309  
31 August 1989 Street 98  
MD 2012 Chisinau  
Moldova  
Tel: +373 22 210 000  
Fax: +373 22 210 011  
Head of Office: Francis Delaey

### Headquarters

EBRD  
One Exchange Square  
London EC2A 2JN  
Tel: +44 20 7338 6000  
Fax: +44 20 7338 6100

### Business Group Director

Olivier Descamps  
Southern and Eastern Europe and the  
Caucasus  
Tel: +44 20 7338 7164  
Fax: +44 20 7338 6599

### Country Director

Michael Davey  
Armenia, Azerbaijan, Belarus, Georgia  
and Moldova  
Tel: +44 20 7338 7086  
Fax: +44 20 7338 6599

### ETC Initiative

Director: George Krivicky  
Tel: +44 20 7338 6035  
Fax: +44 20 7338 6599

### TurnAround Management Programme

Tel: +44 20 7338 7356  
Fax: +44 20 7338 7742  
Email: tam@ebrd.com  
Director: Charlotte Salford

### Project proposals

Tel: +44 20 7338 7168  
Fax: +44 20 7338 7380  
Email: newbusiness@ebrd.com  
Unit Head: Bruno Balvanera

### Publications

Tel: +44 20 7338 7553  
Fax: +44 20 7338 6102  
Email: pubsdesk@ebrd.com

[www.ebrd.com](http://www.ebrd.com)