

PROJECT FICHE 4

Title	Export and Investment Promotion		
Indicative cost	€ 4 million		
Aid Method	Sector Policy Support Programme - Centralised Management		
DAC-code:	25010	Sector:	Business services

1. RATIONALE

Moldovan exporters have already entered, and are well positioned on external markets. Still, there are many markets on which Moldova is absent or does not make full use of its export potential. Globalisation, the increasing international competition, and the necessary export orientation of the Moldovan economy, make it a matter of survival to succeed in extending the presence of Moldovan exporters on their existing markets, and in penetrating new markets in the nearest future.

In this context, local exporters need investments in order to increase the quantity and the quality of their exportable production, to develop their distribution networks and launch new-market oriented products, whereas they lack resources for capital investment, local banks do not provide adapted financing. Alternative sources of financing - including first of all foreign direct investments (FDI) - are logically seen as the only possible solution in the short- to medium-run. The ultimate purpose of the project is to promote both export and investment, two interrelated factors of vital importance for Moldova's sustainable economic development.

1.1. Strategic framework

The Tacis National indicative programme for Moldova 2005-2006 (paragraph 2.1.2) has specified the following objectives in the area of export/investment promotion:

- to improve international competitiveness of the enterprise sector, increase both number and presence of exporting companies on regional and international markets and to increase attractiveness of Moldova for FDI,
- to modernise the capacity of Moldovan companies to attract investments, particularly in agro-food processing sector, where Moldova's comparative advantage remains to be exploited to its full potential; and
- to provide support to foreign investors and to Moldovan companies through the European Information Correspondence Centre.

Implementation of the EU-Moldova European Neighbourhood Policy Action Plan of 22 February 2005 will significantly advance the approximation of Moldovan legislation, norms and standards to those of the European Union as it "will build solid foundations for further economic integration based on the adoption and implementation of economic and trade-related rules and regulations with the potential to enhance trade, investment and growth".

The Moldovan government has made clear in its **EG-PRSP** programme that economic development and growth could be enhanced through the creation of adequate economic and legal conditions in particular through the promotion of small and medium enterprises (SMEs), export promotion and promotion of domestic and foreign direct investment.

1.2. Lessons learnt

Export promotion and FDI can play a key role in helping Moldova to enhance growth and alleviate poverty, also by reducing the constraint put on the economy by its large current account deficit together with the need to repay the high foreign debt. Moldova's trade deficit is widening and structural, as most of its products contain little value-added and export diversification is low. Since 2000, the EU has been active in promoting Moldova's exports, specifically through the financing of the Moldovan Export Promotion Organisation (MEPO). The organisation has recently seen an extension of its activity, as it engaged in providing assistance to foreign investors that wish to invest in Moldova, and in general to attract FDI. Moldova has signalled also its interest in the creation and continuous activity of an Enterprise Information Correspondence Centre (EICC).

The results of the previous Tacis projects in support of the MEPO have revealed the need for a strategic approach towards export/investment promotion policy. It needs not only willingness on the side of Moldovan companies, but strong commitment on behalf of the government. Its implementation should be supported by coherent political will and establishment of sound partnerships with Moldova's trade partners.

1.3. Complementary actions

The Tacis programme contributed to the set-up of the MEPO in 1999. and later (2002-2003) provided technical assistance to strengthening its institutional capacity. A new Tacis project supporting the extension of MEPO's activities is to start later this year. Amongst other EC-funded projects that deal with tangent areas to export/investment promotion are the SME Development project (support to private businesses); the Civil and Commercial Judiciary project; the project on Harmonisation of Moldova's system of standardisation, technical regulation and conformity assessment; the PCA and WTO Requirements project; and the project on Trade Policy and Free Trade Area Implementation.

Other projects indirectly connected with export/investment promotion are: Policy Advice to the Office of the Prime Minister; the Centre for Product Competitiveness project; the MBA programme; the Local Public Administration Project; and the Ungheni/Iasi cross-border project (creation of a local business incubator).

The World Bank and USAID have also projects that cover export promotion and attraction of investments as components of larger scope:

- USAID: Citizen's Network for Foreign Affairs (CNFA), the Centre for Private Business Reform (CPBR), SME development (BIZPRO); Private

Framers Assistance Program, Agribusiness Development Project; and a new Competitiveness project is now in pipeline.

- WB: Private Sector Development (PSD) II, Trade and Transport Facilitation and Liberalisation, and a project on Competitiveness Enhancement and Enterprise Development is in pipeline, scheduled to start September this year. Another PSD-III is in the design stage).

The EBRD is also involved in export/investment promotion as it has currently in place two instruments: Trade Facilitation Program and Structured Trade Finance instrument (to start soon) for Moldova. Trade Facilitation Programme (TFP) aims to promote foreign trade to, from and within Moldova. Through the programme, the EBRD provides guarantees to international confirming banks, taking the political and commercial payment risk of international trade transactions undertaken by banks in the countries of operations (the issuing banks). It provides cover for a broad range of trade finance instruments; unconditional guarantees payable on first written demand; guarantees of up to 100% of the face value underplaying trade finance instruments; uncommitted trade finance lines and transaction approval on a case-by-case basis and short-term loans to selected local banks for on-lending to local exporters and importers.

1.4. Donor coordination

In relation with the donor community, the main government's intent is to provide Economic Growth and Poverty Reduction Strategy as the main strategic framework for the provision of technical assistance and other forms of aid as well to Moldova. However, most donors in Moldova operate on the basis of their own strategies. In reality there is little coordination between donors and the government at the level of strategy preparation. However, the Ministry of Economy (more specifically, NCU) administers an electronic data-base "IDEA" of all TA assistance coming to Moldova. This data-base was designed by TACIS and can be accessed from outside via the web-site. Along these lines, one may also mention that the Ministry of Finance maintains a database on grant (investment) projects.

Some of the donors are willing to partner for this EC project. The WB has suggested it might provide grants for competitiveness enhancement and export promotion but they request EC on whether it could back up the grant supervision administrative costs. Other area of cooperation would be to work closely on specific sectors with USAID who is already in the market: for example Agribusiness development that works on expanding export markets through increasing the competitiveness of Moldovan high value agriculture. The USAID also mentioned possible cooperation within their new project on Competitiveness Enhancement as they will be identifying industry clusters to work with, including assisting them in export promotion. A common understanding on complementary actions or different cluster approach was agreed upon informally.

2. COUNTRY CONTEXT

2.1. Sector Policy

According to the Economic growth and Poverty reduction strategic programme (**EG-PRSP** programme), with the objective of promoting external trade in the medium term, the Government will direct its efforts towards: collecting, categorising and disseminating information regarding the conditions for local goods and services that are required for accessing international markets; developing modern information systems, which would enhance the visibility of export trade opportunities, especially those of SMEs; providing partial support through public resources for the participation of local exporters in fairs, exhibitions and international economic missions; providing resources for the promotion and the support of Moldovan exports from the special funds created for this purpose; implementing programs of specialized training in the export area; encouraging SMEs to creating export alliances that will consolidate and facilitate access of domestic exporters to external markets, new technologies and capital etc.

The medium term task is to significantly improve the **investment climate** in order to accelerate the growth in domestic and foreign private sector investment expenditures. Thus, according to EGPRSP, the priority actions promoted by the Government will include: supporting the infrastructural and institutional development of the financial market in order to consolidate the role of the financial sector in the mobilisation and circulation of investment resources, as well as reduce investment risks; engaging into a permanent dialogue with representatives of the investor community and business, aiming at addressing existing problems and improving the investment climate; developing instruments and mechanisms for stimulating banks to offer long term loans, and attracting the savings of the population, including especially the transfers of the people employed abroad to support investment activity; creating an efficient system for dissemination of information to foreign and local investors about the opportunities for investment in Moldova; examine possibilities for creating an Industrial Investment Bank with joint private and state capital.

Apart from EG-PRSP, the Government has developed the “Pro-Invest” programme for 2005-2006 into facilitating investment activities in short-term in line with the Law on Investments in Entrepreneurial Activities 2004, and the Government Decision on the Investment Strategy of Republic of Moldova adopted in 2002.

The Medium Term Expenditure Framework (2005-2007) envisages a relatively small and constant budget for export and investment promotion activities. Thus, within the aforesaid period of time, Export Supporting Fund will receive transfers from the state budget in the amount of 2 Mio MDL (approximately €120,000), annually. Annual transfers from the state budget for activities of investment promotion constitute 500,000 MDL (approx. €30,000). The funds provided by the state budget are obviously far below the necessities a consistent, efficient and multilateral export and investment promotion program, based on EGPRSP guidelines, might impose.

3. DESCRIPTION

3.1. Objectives of the project

- To improve international competitiveness of the Moldovan enterprise sector, especially SMEs, including the objectives to increase the number and presence of Moldovan exporting companies on regional and international markets, and strengthen support agencies such as MEPO through building partnerships and contracting services;
- To increase the attractiveness of Moldova for FDI, including the upgrade of Moldovan companies' capacity to attract investment, particularly in the agro-food processing sector, where Moldova's comparative advantage remains to be fully exploited;
- To improve communication between foreign investors and Moldovan companies through the European Information Correspondence Centre (EICC).

3.2. Operating modality

Standard EC procedures for technical assistance.

3.3. Expected results and main activities

Expected results

The National indicative programme 2005-2006 stipulates as expected results a higher proportion of export-capable companies that can also offer sound investment opportunities. Improve Moldova's growth profile by increasing exports and attract FDI. Indicators will include measures of the FDI flows and exports performance; number of enterprises recording substantial export sales; number of enterprises which attracted foreign investments; numerical indicators for the ability of Moldovan exports to penetrate EU markets and for their qualitative diversification.

Main activities

Component 1: Policy advice on export and investment

Advice to the government on export and investment. The component envisages the improvement of Moldovan legal framework related to export and investment activities. Activities to be implemented are as follows:

- Identification of legal and normative impediments to export and investment (including as regards export financing instruments)
- Assistance in policy reform aiming to abolish discriminatory measures affecting foreign investment

- Development of a national export and investment strategy aiming not only at overcoming such impediments and discriminatory factors, but also at building up a comprehensive system of measures supporting potential export market identification and targeting; encouraging the development of market-based, adapted export financing instruments, including guarantee mechanisms; improving the adaptability of the national quality assurance system with regard to identified potential export markets; encouraging domestic and foreign investment
- Identification of priority measures and implementation thereof (Components 2-5 below should be therefore implemented within the overall framework of the national export and investment strategy)
- Full application of PCA commitments with regards to investment

Component 2: Improvement of the Quality assurance system

Conformity assessment and ISO/EU certification. This project component aims to improve the environment for the Moldovan industry and manufacturers for facilitating trade and industrial relations with the EU counterparts and the international markets. It implies branding of Moldovan goods bringing them to a competitive level commensurate with ISO and EU standards. Activities to be implemented under the present component are the following:

- Identification of priority sectors / branches in connection with existing or target export markets that will benefit from the quality assurance system improvements to be introduced under the project
- Carry on conformity assessment development with an emphasis on exported goods in the above-mentioned priority sectors / branches, and regularity/consistency/frequency of conformity assessment of exported goods/services
- Further harmonisation of Moldovan standardisation, technical legislation and conformity assessment system with a view to expand exports and to encourage foreign investment
- Advice to Moldovan companies on compliance with ISO standards and promotion of voluntary standardisation
- Assistance to certification bodies for accreditation by a EU accreditation body (foodstuff products, quality management systems)
- Information facilitation on European organisations (CEN-CENELEC, EA) requirements for membership, and support to EA membership for the concerned certification bodies.
- Check the results of previous similar projects/actions to avoid possible problems that have already been faced previously, and avoid possible duplication of efforts.

Component 3: Financial instruments profiling

Development of adapted financial instruments in support of export and investment. Export promotion and export-related investment promotion, by themselves, do not suffice to achieve the objectives set forth for this project. Insuring actual financing possibilities for the concerned enterprises is a prerequisite. Therefore, this component aims at developing, and implementing in commercial banks selected for their good financial standing, financial schemes in support of export and export-related productive investments adapted to the condition and size of Moldovan enterprises. Activities will include, among others:

- Analysis of legal framework and practicalities of existing financial instruments accessible to exporting enterprises, particularly documentary credit (letters of credit) and project financing products (in the case of export-related productive investment)
- Assessment of possible divergence between such financing possibilities and financing requirements, for each targeted export market (different markets having different financing requirements), focusing on the priority sectors / branches identified earlier
- As appropriate, development and introduction of financing instruments in line with priority markets' requirements, by way of co-operation between the government, the banking industry, and the concerned enterprises
- Establishment, by way of co-operation between the banking industry and the concerned enterprises, of a monitoring system aimed to follow up target market requirements and adapt, as appropriate, the existing financing possibilities for exporting enterprises.

Component 4: Export Promotion

Export market development. This project component envisages the development of new market niches and segments for existent markets, as well as penetration of new markets, in line with the national strategy developed under Components 1 and the priority sectors / branches identified under Component 2. Activities to be implemented include, among others:

- Analysis and evaluation of existent and new markets, and identification of the most appropriate market segments for exported products;
- Research on possibilities to add value to existing exported products
- Elaboration of market development and penetration strategies
- Delivery of training on market development.

Export capacity consolidation. This project component envisages assisting Moldovan SMEs in improving their export capacity by joining their efforts (for instance, by establishing export alliances) in the attempt to penetrate new export markets. Activities to be implemented under the present component are as follows:

- Identification of sectors within which the proposed type of cooperation is the most appropriate and promising, and determining appropriate structures for industry co-operation (including the development of umbrella trademarks and shared / joint marketing tools)
- Human resource development
- Upgrading of existing services (in particular, networking facilities) and development of new services (for instance, Business Upgrade Programme).

Component 5: Investment Promotion

Investment promotion. The component aims to provide assistance to the government and Moldovan enterprises or their associations in ensuring a favourable investment climate that will ultimately lead to the improved notoriety of Moldova in the international business community, and leading among others to an increased number of successful joint ventures. Activities to be implemented are as follows:

- Assisting in establishing a viable and sustainable investment climate, in particular in advertising investment opportunities offered by Moldova
- Analysis of Moldova's comparative advantages, by sector
- Facilitation of contacts between investors and local companies
- Possibly, advertising of Moldova's investment opportunities in the media.
- Developing the EICC Business Opportunities database by means of a national survey

3.4. Stakeholders and institutional capacity

The main stakeholders of the project are: the Ministry of Economy of Moldova, the Department of Commerce of Moldova; the Ministry of Agriculture of Moldova; the Ministry of Industry of Moldova; the Department of Standardisation and Metrology; and the Moldovan Chamber of Commerce.

The beneficiaries of the programme are Moldovan enterprises, especially SMEs (exporting and export-capable companies), commercial banks, association of producers, associations of exporters, associations of bankers, current and potential foreign investors, the government, and local authorities.

The development of local initiatives and the strengthening of the capacity of state authorities to involve the civil society are important elements for supporting economic reforms in Moldova. For the purpose of the project, this entails informing general public about all the stages of project implementation process; enhancing the transparency of the activities conducted; and disseminating project results.

3.5. Risks and assumptions

Success of this programme in terms of better performance of Moldovan enterprises will of course depend heavily on the overall business climate and Moldova attractiveness for foreign investors. Perspectives are not entirely positive from these points of views. However, this should not undermine the usefulness of this programme. The degree of success of the project will depend also on how corruption and other “external factors” that negatively affect development of enterprises in Moldova are properly addressed by the Moldovan, government.

The implementation agencies must remain autonomous services to enterprises, in particular those privately owned. Implementation policy should be set within the broad framework of the Government strategy (such as the EG-PRSP), but should be directed by bodies representing both Government and the private sector, with the private sector voice predominant.

The Government should agree a progressive schedule to assume full financing responsibility for strategic trade and investment promotion activities in the medium term.

3.6. Cross-cutting Issues

The present project by its nature is neutral to such issues as: environmental sustainability, gender equality, good governance and human rights. Thus, the project does not negatively affect any of the elements mentioned above.

By putting emphasis on the market orientation of the country’s economic development, the project will contribute to increase the economic welfare of its citizens.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Centralised Management by EC Delegation.

The programme will support through the provision of technical assistance, training, vocational training, supply of equipment to export promotion organisations, organisations that act in support of foreign direct investments and the EICC, building on the export-promotion work that has already been done, with the aim of increasing Moldova’s international competitiveness and its ability to compete for foreign investments. Twinning may be used as an implementation modality.

4.2. Budget and calendar

Overall budget: € 4 million

Operational duration: 24 months

4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.4. Performance monitoring

The project will be monitored according to standard procedures.

Project monitoring will be based on periodic assessment of progress on delivery of specified project results and towards achievement of project objectives.

4.5. Evaluation and audit

The project will follow standard procedures for evaluation and audit.