



## I. Economic overview

### 1.1. General economic indicators

Indicators	2002	2003	2004	2005
1. GDP, USD mln	1,662	1,981	2,598	2,917
2. GDP per capita, USD	459	548	721	812
3. GDP growth rate, %	107.8	106.6	107.4	107.1
4. Industrial production growth rate, %	110.8	115.6	108.2	106.3
5. Annual inflation rate (medium), %	105.2	111.6	112.4	111.9
6. Annual unemployment rate, %	6.8	7.9	8.1	7.3
7. Balance of current account, USD mln	-70.3	-140.0	-51.9	-285.0
8. Average monthly gross salary, USD	50.9	63.9	89.5	104.7
9. Interest rate on long-term loans (capital assets), %	21.60	18.40	19.94	18.02
10. Interest rate on short-term loans to companies, %	23.44	19.29	21.20	19.15
11. Interest rate on demand deposits, end of year, %	7.27	6.01	3.73	4.64
12. Gross external debt stock, USD mln	1,816.4	1,925.0	1,874.0	1,991.0
13. Foreign currency reserves, USD mln	268.9	302.3	470.3	597.4
14. Exchange rate of MDL for 1 USD, end of year	13.82	13.22	12.46	12.83

Source: National Bureau of statistics, National Bank of Moldova

### 1.2. Foreign trade

#### 1.2.1. Foreign trade regime and major regulations

Foreign trade was liberalized in 1994. There have been neither quotas, nor other qualitative restrictions on exports since 1995. Businesses trade freely a wide range of goods with the exception of some specific product categories, such as weapons, precious metals, explosives, poisons, medicines, medical items and equipment. Moldova has become a member of the World Trade Organization (WTO) in February 2001.

#### 1.2.2. Customs regime, export and import quota

In trade with other countries, except for the Commonwealth of Independent States (CIS), the principle of the country of destination is applied, i.e. customs duties are imposed on imports at the border. Most Favored Nation agreements have been signed with 17 countries. No customs duties are imposed on raw materials, spare parts, half-finished goods and chemicals. Moldovan exports are not subject to customs duties; only a fee amounting to 0.25% of the value of goods in the customs is charged for customs procedures.

The Republic of Moldova has been a beneficiary of the EU Generalized System of Preferences (GSP) since 1 July 1999. According to it, Moldovan exports to the EU markets enjoy partial or total exemption from customs tariffs. Since 1 January 2006, the Republic of Moldova benefits from the application of GSP+ offered by the European Union. It covers a broader range of products than those included in GSP,

which are exported to the EU under a total exemption of customs tariffs. According to GSP, Moldovan exports enjoy tariff preferences in the markets of Switzerland, Japan and the USA as well.

The tariff policy of the Republic of Moldova is based on the trade regime established by the WTO. The country's consolidated classified list is quite liberalized: the weighted average tariff is 4.3%; the average customs tariff for agricultural products is 12.65%, while the average customs tariff for industrial products is 3.95%. Tangible assets whose cost exceeds MDL 1,000 per unit (about USD 78), imported as fixed assets to contribute to the creation or increase of the statutory capital of a certain entity, are exempted from the payment of customs duties.

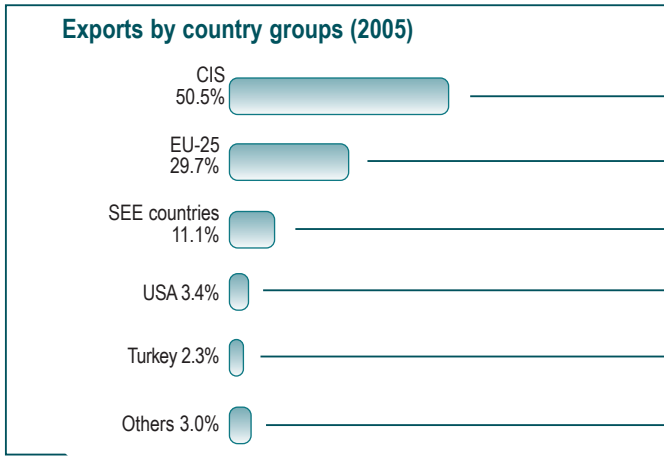
The license system and procedures have been simplified in 2002 through the establishment of the Chamber of Licensing - the official authority for issuance of licenses, as the number of activities requiring license has been reduced from 106 to 49 over the period 2001-2005.

#### 1.2.3. Exports and imports

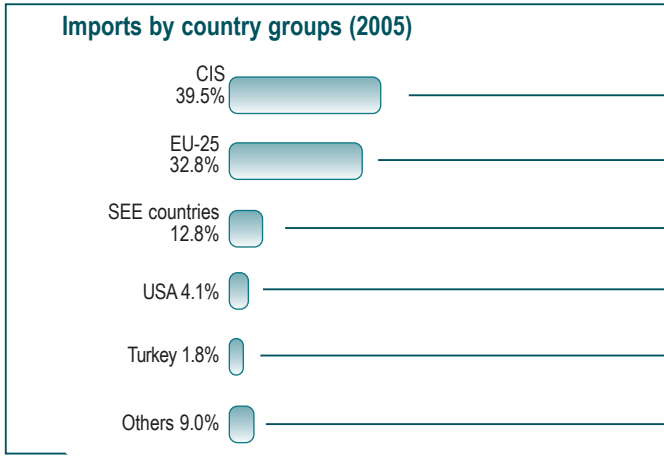
Trade volume, EUR mln	2002	2003	2004	2005
Exports	874.2	1,056.8	1,317.5	1,359.5
Imports	1,284.3	1,718.6	2,130.6	2,856.6

Source: National Bureau of Statistics

1.2.4. Structure of foreign trade by regions



Source: National Bureau of Statistics



Source: National Bureau of Statistics

1.2.5. Major trade partners

The 10 major export partners in 2005 were: Russian Federation (31.8%), Italy (12.2%), Romania (10.2%), Ukraine (9.1%), Belarus (6.5%), Germany (4.3%), USA (3.4%), Poland (2.3%), Turkey (2.3%) and Kazakhstan (1.6%).

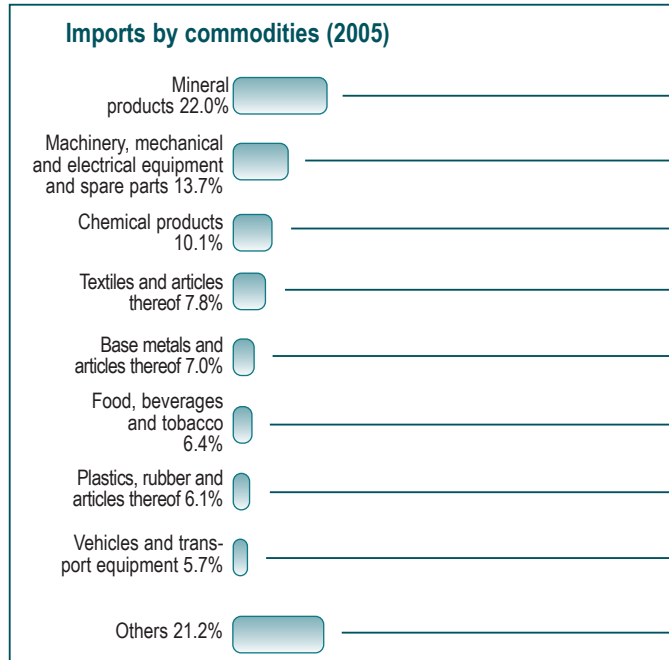
The 10 major import partners in 2005 were: Ukraine (20.9%), Russia (11.7%), Romania (11.2%), Germany (8.3%), Italy (6.6%), Turkey (4.1%), Belarus (3.7%), China (3.2%), Poland (2.8%) and France (2.8%).

Source: Agency for Statistics of BiH

1.2.6. Structure of foreign trade by commodities



Source: National Bureau of Statistics



Source: National Bureau of Statistics

1.2.7. Free trade agreements

Moldova has 10 bilateral interstate agreements on free trade with the CIS countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, the Russian Federation, Turkmenistan, Ukraine and Uzbekistan (the only exception is Tajikistan) and 7 bilateral interstate agreements on free trade with the Southeast European countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Serbia and Montenegro.

The agreements on free trade with the CIS countries stipulate the full application of preferential trade conditions except for the bilateral trade with Belarus, the Russian Federation and Ukraine. Exemptions from the free trade regime are introduced in the Protocols to the abovementioned FTA and are non-symmetrical. Presently, the following exemptions from free trade apply:

- In the trade between Moldova and Belarus, Belarus exempts sugar, while Moldova has no exemptions
- In the trade between Moldova and the Russian Federation, the latter exempts liqueurs and spirits (a tariff quota is in effect), while Moldova does not apply any exemptions. Until 2005, Russia has exempted from free trade sugar, tobacco and manufactured tobacco products, incl. cigarettes/cigars
- In the trade between Moldova and Ukraine, Ukraine exempts ferrous waste and scrap, raw hides and skins of bovine or equine animals, sugar, sugar syrups and molasses, while Moldova exempts sugar, sugar syrups, sugar confectionery and spirits

Since 1 January 2005, the Republic of Moldova applies in full the free trade agreements signed with the Southeast European countries. The agreements stipulate the gradual introduction of a preferential trade regime until 2007 and set up certain lists of products that are subject to these agreements.

Moldova has signed bilateral agreements on trade and economic co-operation with the following countries: Austria, Belarus, Bulgaria, China, Czech Republic, Estonia, Greece, Hungary, India, Iran, Israel, Italy, Latvia, Lithuania, Netherlands, Poland, the Russian Federation, Tatarstan, Turkey, Ukraine, the USA and Uzbekistan.

### 1.2.8. Free Economic Zones (FEZ)

There are 6 FEZs in Moldova at present: "Expo-Business-Chisinau", located in the capital Chisinau, "Ungheni-Business" (107 km away from Chisinau), "Tvardita" (115 km away from Chisinau), "Otaci-Business" (220 km away from Chisinau), "Valkanes" (200 km away from Chisinau) and "Taraclia" (153 km away from Chisinau). Over 120 residents are registered in the FEZ.

The following types of activities may be carried out in the FEZ:

- Production of goods for export
- Sorting, packing, marking and other similar operations of goods conveyed through the customs territory of Moldova
- Other support activities, such as utility services, warehousing, construction, catering, etc.

The legislation provides for incentives, guarantees and privileges for businesses in the FEZ. Residents enjoy a special customs and tax regime. In particular, they benefit from the following:

- Exemption from customs duties for goods imported into the FEZ and exported out of the FEZ
- 50% tax reduction on income derived from export of goods out of Moldova

- Tax exemption on income obtained from agricultural production within the FEZ
- Exemption from payment of income tax for a period of 3 years and exemption from payment of income tax during the next 5 years if investing more than USD 5 mln
- Goods imported into the FEZ and exported out of the FEZ territory are not subject to excise duty payments

Investors in the FEZ are guaranteed and protected from changes in legislation for a period of up to 10 years.

### 1.3. Foreign investment

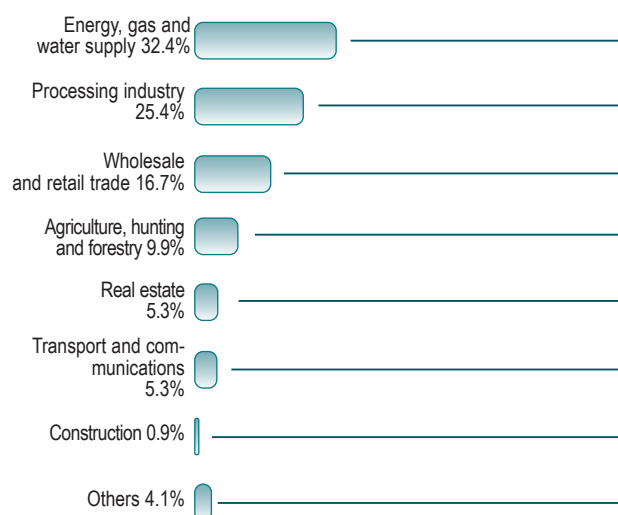
By the end of 2005, the FDI stock reached USD 1,128.7 million, of which: equity capital - USD 746.1 million, reinvested earnings - USD 148.2 million and other capital - USD 234.4 million. In the beginning of 2006, there were 2,343 enterprises with foreign capital registered in Moldova.

#### 1.3.1. FDI by years and by type of investment

	2000	2001	2002	2003	2004	2005
Equity capital	83.69	110.89	60.13	39.66	116.49	84.51
Reinvested earnings	-2.60	-36.64	22.68	21.18	37.83	72.04
Other capital	45.48	27.69	49.87	17.45	-0.42	68.74
<b>FDI total, USD mln</b>	<b>126.57</b>	<b>101.94</b>	<b>132.68</b>	<b>78.29</b>	<b>153.90</b>	<b>225.29</b>

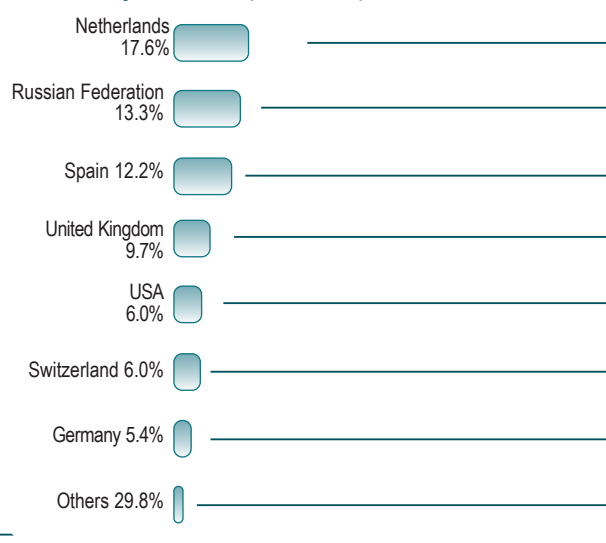
Source: National Bank of Moldova

#### 1.3.2. FDI by sectors (2005)



Source: National Bank of Moldova

### 1.3.3. FDI by countries (1994-2005)



Source: National Bank of Moldova

### 1.3.4. Top foreign investors

Foreign investor	Country	Sector
Gazprom JSCo.	Russia	Gas distribution
Union Fenosa	Spain	Energy distribution
Lafarge	France	Construction materials
France Telecom MI	France	Telecommunications
Fintur Holding	Netherlands	Telecommunications
METRO Group A.G.	Germany	Wholesale trade
AZPETROL Co.	Azerbaijan	Trade with petroleum, diesel and gas
Lukoil Europe Ltd.	United Kingdom	Trade with petroleum
Mabanaft A.G.	Germany	Trade with petroleum
Western NIS Enterprise Fund (WNISEF)	USA	Food industry, glass bottles, banking sector

### 1.3.5. Government institutions in the field of foreign investment

The **Moldovan Export Promotion Organization (MEPO)** is the official trade and investment promotion organization of the Republic of Moldova, set up by the Government in 2001 as an export promotion agency. In 2002, an Investment Promotion Department (MIDA) was created within MEPO. MEPO's mission is to provide services to foreign businesses exploring investment and business opportunities in Moldova, and to support local companies in the area of export marketing in order to meet international competition. In the field of investment promotion, MEPO operates as a one-stop shop for investors, offering the following services:

- Information: general and industry specific information on business and investment opportunities in Moldova
- Match-making: identifying potential co-operation and joint-venture partners and recommending industrial sites to suit investor's needs
- Assistance: organizing inward missions with site visits for foreigners and assistance during negotiations between Moldovan and international parties
- Contacts: providing useful contacts with members of public and private sectors, national and local authorities
- After-care services: encouraging existing investors to expand and develop their businesses

### 1.4. Investment opportunities by sectors

#### 1.4.1. Information technologies (IT)

The IT sector in Moldova has a long track record. Producers of hardware and companies specialized in software development have employed approximately 40,000 people during the 1990s. More recently, the IT businesses have been focused on software and systems development with associated PC Boards design, etc. Manufacturing, assembly and testing skills are still present in Moldova, but are dispersed throughout other sectors. There are 7 university level educational institutions and 3 colleges, which have enrolled about 2,057 university students and 735 college students in information and communication technology faculties in 2003.

There are more than 90 active companies in the IT sector, which have reached a total turnover of USD 13.4 million in 2002, which is a 23% increase in comparison to the previous year. The main fields of business include:

- Development of hardware and embedded control software for technological processes, telecommunications and special purposes equipment
- Software business applications
- Customized software
- Encryption and data protection software

Software programming is the sub-sector with the greatest export potential. The annual volume of exported software services is estimated at around USD 1.4 million.

#### 1.4.2. Electrical and radio-electronics sector

Traditionally, electronics has been a key part of Moldova's economy employing about 25,000 people and disposing of well known research and production facilities. Enterprises in the sector have been suppliers and subcontractors for the entire economy of the Soviet Union with focus on defence industry. Currently, the electrical and radio-electronics sector comprises around 20 large enterprises and scientific institutions, and many smaller companies. The total number of employees is about 5,000 people.

The range of products offered by Moldovan companies is very extensive, such as: non-destructive testing equipment, connectors for transducers, recharge devices, power electronic devices, FM portable receivers, electrical instant water-heaters, pumps, programmable electric modules, micro-controller programmes, measuring stations for diesel fuel, automated control systems, systems for measuring of energy resources, smart integrated metering systems, micro-wires, cable systems and system solutions, components for the electronics industry, electronics components for the automotive industry, high-voltage dividers for radio-electronic equipment, printed circuit boards, microelectronics products, modules for TV sets, cash registers, etc.

This variety of devices is supported by the availability of particular expertise in the following main types of technologies and generic products: hybrid thin layer electronics, hybrid circuits, surface mount technology, semi-conducting structures, silicon with integrated microcircuits, wire networks, incl. multilayer networks, assembling of electronic devices material technologies and electronic structures, electronic and optical electronic devices, micro-sensors and micro-converters, metallic micro-fibres, semiconductors and thermo-electrics.

In 2005, the value of exports of electrical and radio-electronics products has reached USD 46.3 million (17.8% growth in comparison to 2004). At the same time, imports in the sector have grown to USD 322.2 million (34.4% increase). The main export partners in the sector have been: the European Union countries, CIS countries, India, East European countries, etc.

Moldova's electronics industry is welcoming foreign investment in the following sectors: telecom networks, fibre optics, consumer and industrial electronics, semi-conductor electronics, medical electronics, assembly technologies, integrated circuits and circuits for the automobile industry, power electronics, converters, etc.

#### 1.4.3. Construction and real estate

The construction industry, along with the machine-building industry, backs the country's investment potential and accounts for 9 to 10% of GDP. The availability of local raw materials presents a significant advantage for the development of the sector. Deposits of raw materials are sufficient to satisfy Moldova's needs, and certain quantities are exported, such as limestone, granite, natural stone, clay, raw materials for bricks manufacturing, etc. There are some mineral sediments, which can be used for manufacturing of construction materials, e.g. heat-resistant glue, chalk, ceramic glue and quartz sand for glass production.

Year 2001 has been a turning point in Moldova's real estate market development as construction of both multi-store buildings and individual houses has intensified.

#### **Residential properties**

In 2002 and 2003 demand has exceeded supply by three times due to increase in the purchasing power of the population, a result of significant transfers of funds from Moldovan residents working abroad (estimated at about USD 1 billion in 2004). About 22% of these have been spent on purchases of real estate and automobiles. About 80% of all residential real estate supplied on the market is concentrated in Chisinau. During the past three years housing prices have increased 2.5 times, while for certain types of construction - even three times. During the first quarter of 2004 the prices have increased by 15-20%, both for "cheap" and elite housing.

#### **Non-residential real estate**

The trend is quite similar with regards to non-residential real estate. Demand exceeds supply by several times, directed mainly towards commercial and office space, given a lesser investment payback period (7-10 years).

Demand has increased for larger spaces, as the average area of real estates sold recently averages 524.8 sq. meters. Undersized supply is explained by the fact that non-residential real estate owners (in particular of commercial spaces) prefer to lease out rather than sell properties. Therefore, the construction industry is a promising sector for future investment.

#### 1.4.4. Tourism

There are a number of preconditions for tourism becoming one of the most profitable branches of Moldova's industry, such as favourable geographical location and climatic conditions, and abundance of natural recreational resources. Notwithstanding a decrease in the number of tourist visits in Moldova in the past few years, resulting from the decrease in transit tourists, a structural change in the industry is noticeable. There is a diversification of sending countries as the number of tourists from the CIS and other countries is now levelling out.

In 2004, about 67,846 Moldavians have travelled abroad while close to 26,045 foreigners have visited the country. The greatest number of tourists has come from Turkey, Ukraine, Russia, USA, Romania, Belarus, Germany, Italy, Bulgaria, Netherlands and Austria.

In terms of investment opportunities, the following main tourist products have great potential based on their availability throughout the whole year at a relatively low price:

- Rural tourism based on the picturesque countryside of Moldova, its historical background, local customs and traditions, and rural way of life in many locations
- National tours. Moldova is a small country with a distance of only 350 km between its Northernmost and Southernmost points, while from the East to the West it is 150 km. Therefore, tourists visiting the country have the opportunity to explore it within a comparatively short period of time
- Wine path tours based on the rich national traditions and on the well-developed vine growing and wine producing industry.

Well established wine routes starting from Chisinau provide opportunities for tasting local, high quality wines, such as Rara Neagra, Feteasca, Plavai, etc., in addition to the European varieties like Chardonnay, Pinot, Riesling, Cabernet and Aligote. Moldova disposes of some of the world's best known underground wine cellars, such as: Cricova, Purcari Ciurmai, Romanesti, Cojusna, Milestii Mici, etc.

- Business tourism. The favourable geographical location, traditional hospitality and relatively low prices are good pre-conditions for development of this type of tourism, which is still quite a new product for Moldova

## 1.5. Foreign investment regime

### 1.5.1. Legal framework

The main legislative act regulating the FDI framework is the Law on Investments in Entrepreneurial Activity, enacted in early 2004 (Official Monitor 6466/2004).

#### **Freedom of investment**

Investors may locate their investments throughout Moldova, in any area of business activity, as long as this does not go against the interests of the national security, anti-monopoly legislation, environment protection norms, public health and public order. Moldova commits to ensure full security and protection for all investments, regardless of the type of investment, following the provisions of international treaties on mutual protection and encouragement of investments to which the state is a party.

#### **Non-discriminatory investment environment**

Local and foreign investors have equal rights under the Moldovan legislation and there is no discrimination of investments on the basis of citizenship, home, residency, place of business registration, state of origin of the investor or investment. Investors are guaranteed fair and equal treatment in running their business without any discrimination that would hinder management, operation, maintenance, use, capitalization, acquisition, growth or disposal of investments.

#### **Safeguards against expropriation of investments or similar practices**

If such cases occur, the public benefit and compensation payable should be established under the Law on Expropriation on the grounds of delivering a public benefit. Investment activities may not be forcefully disrupted unless all of the following circumstances take effect cumulatively:

- The disruption is undertaken for some public benefit considerations
- The disruption is not discriminatory
- The disruption is preceded by a reasonable recompense

#### **Safeguards for repairing prejudices**

Investors are entitled to claim repair of the prejudices caused through violation of their rights. The compensation must be equivalent to the actual scope of damages at the time of their

occurrence. It must be paid to the investor in the currency, in which the investment has been made or in any other hard currency, if the investment has been made in hard currency.

#### **Property rights**

Foreign investors may acquire property rights over buildings and the right to use land, on which their premises are built. Land plots may be rented out to enterprises with foreign participation for up to 99 years with or without the right to extend this term. If national enterprises are given ownership rights over certain land, this right can be also given to enterprises with foreign stakes.

## II. Establishing business in Moldova

### 2.1. Forms of business and corporate governance

<b>Company Regime</b>	<b>Legal Framework:</b> Law on Enterprises and Entrepreneurship (No. 845-XII/1992); Law on Joint-Stock Companies (1997).
<b>Types of Companies</b>	General partnership; Limited partnership; Limited liability company (Societatea cu raspunderea limitata or S.R.L.); Joint-stock company (Societatea pe actiunii or S.A.); Limited partnership by shares
<b>Partnerships</b>	<b>Partners:</b> Two or more - individuals or legal entities. <b>Characteristics:</b> All partners bear unlimited liability for the obligations of the general partnership. In addition to the general partner, in a limited partnership there must be at least one limited partner with liability for the company obligations limited to the amount of its contribution. Both general and limited partnerships cannot be legal entities.
<b>Limited Liability Company</b>	<b>Minimum capital:</b> MDL 5,400
<b>Joint-Stock Company</b>	<b>Shareholders:</b> One or more for open-end companies and one to 50 for closed-end companies. <b>Minimum capital:</b> MDL 20,000 for open-end companies and MDL 10,000 for closed-end companies. <b>Share and contribution requirements:</b> The nominal value of each share may not be less than MDL 1 and must be divisible by MDL 1. <b>Company management:</b> The general meeting of shareholders is the decision-making body. A board of directors comprised of at least 3 members performs the company management. The general meeting appoints the chairman of the board of directors unless provided otherwise in the articles of association. The powers of the board of directors may also be granted to a management organisation by decision of the general meeting. An audit panel appointed for a period of 2-5 years must exercise control over the company's financial and economic activities. <b>Specific features:</b> The board of directors of companies with more than 300 shareholders must consist of at least 5 members. In companies with less than 50 shareholders the general meeting may exercise the powers of the board of directors.

<b>Branches and Representative Offices</b>	<p><b>Legal framework:</b> Commercial Code (No. 7632/1992), Law on Commercial Register (No. 7667/1993)</p> <p><b>Registration:</b> A foreign person may open a branch subject to registration at the Commercial Register.</p> <p><b>Specific features:</b> Branches and representative offices can be established by any Moldovan enterprise for carrying out part of its functions or protecting its interests and dealing on its behalf. These organizations are not corporate bodies, except for foreign economic agents, whose branches or representative offices are deemed legal entities, and their assets are included in the assets of the main enterprise. The enterprise bears responsibility for the liabilities of branches and representations, and vice versa. In contrast, branches and representative offices of companies with foreign investments are corporate bodies with full rights and take the form of limited liability companies.</p>
<b>Bankruptcy</b>	<p><b>Legal framework:</b> Bankruptcy Law (No. 786 - XII/1996)</p>
<b>Anti-Trust Rules</b>	<p><b>Legal framework:</b> Law on Protection of Competition (No.1103-XIV/1992)</p>

## 2.2. Foreign exchange regulations

Foreign exchange operations in Moldova have been liberalized by Article VIII, Sections 2, 3 and 4 of the IMF Agreement (30 June 1995), which provides for the convertibility of the national currency (MDL). Economic agents can freely purchase and sell foreign currency for all international currency operations and for some capital operations.

The foreign exchange regime is regulated in accordance with the Law on the National Bank of Moldova, by Parliament Decision No. 600-XII/11 June 1991 and by the President's Decree No. 6/13 January 1994 (On Some Measures of Currency Control on the Territory of the Republic of Moldova).

The foreign currency exchange in cash is not restricted; exporters are allowed to collect and keep proceeds from exports in their foreign currency accounts. It is not mandatory to sell foreign currency to the state. Foreign investors have the right to repatriate profits from their investments.

Providing credits and guarantees to non-residents and other capital transfers to non-residents require a prior authorization by the National Bank of Moldova (NBM). NBM carries out foreign currency sales and purchase transactions with authorized dealers, foreign banks and the Government of Moldova.

Residents leaving Moldova can freely export hard currency in cash and cheques up to USD 5,000 (or their equivalent). Amounts of up to USD 50,000 (or their equivalent) can be transferred after presenting a foreign currency export permit, issued by an authorised local bank or NBM, or a customs declaration, certifying the import of currency into Moldova. Amounts exceeding USD 50,000 (or their equivalent) can be transferred out of Moldova on a clearing basis. Resident indi-

viduals have the right to make transfers and payments in hard currency on current international transactions, upon submission of documents, confirming the necessity to make such payments. Hard currency transfers exceeding USD 1,000 (or their equivalent) need an authorisation by the National Bank of Moldova.

Advance payments by resident legal entities for imported goods, services and labour should not exceed 30% of the cost of the goods, services or labour, if 30% amounts to more than USD 20,000. Resident legal entities (except for authorized banks) exporting goods, rendering services and delivering works contracts, should deposit the profits from their exports into their accounts with authorised Moldovan banks within 60 days of the date of payment stipulated in the contract, but not later than 180 days from the date of the customs declaration, confirming the export of goods or the date of the invoice (statement or protocol) confirming the provision of services or labour.

Residents are not obliged to sell foreign currency if they are authorized dealers or enterprises with foreign investment registered in Moldova, if the share of foreign investors in the capital exceeds a pecuniary evaluation of USD 250,000 or 30% of the capital. Other residents receiving foreign currency as a reimbursement for goods, services and labour, exported to non-residents, must transfer 100% of the foreign currency received to accounts with authorized banks within 15 days from the date of their receipt.

## 2.3. Legislative framework of concessions

The government has exclusive rights to award concessions for the exploration, extraction and development of natural resources in the country, pursuant to the Concession Law (No 534-XIII/1995). Concessions are executed in accordance with government resolutions, following international procedures (auctions or tenders).

Foreign investors can acquire the right to use existing objects or objects under construction which are state or municipal property, but not transferred to enterprises, institutions or organisations, by virtue of a concession agreement with the contracting authority. The period of concessions of natural resources may not exceed 50 years.

## 2.4. Legislative framework of public procurement

The Law on Procurement of Goods, Works and Services for Public Needs sets out the legal framework of public procurement, as well as the rights and responsibilities of the National Agency for Public Procurement. Suppliers of goods, works and services are admitted to participation in the procurement procedures regardless of their citizenship except for cases where the Procurement Agency, in the interest of the state and in accordance with the effective legislation, decides to restrict tenders to domestic suppliers.

The preferred procedure for procurement of goods and works

is the open tender. Other procurement methods include two-stage tendering procedure, restricted procedure, request for price offers and purchase from a single source. The two-stage tender involves additional negotiations with the tenderers as the Procurement Agency is not always able to provide a detailed description of the goods, works or services to be procured. The Procurement Agency may organise a restricted tender deliverable by a limited number of suppliers, if the estimated cost of the procurement contract does not exceed 12,500 minimal wages. In cases when goods and services are procured in smaller quantities and where the sales market has already been established, the procurement can be done on the basis of price offers.

Procurement of services is regulated by special rules. If a service contract is awarded following a procedure different from negotiations, the Procurement Agency must introduce certain requirements based on non-price criteria (in relation to quality and technical characteristics) and must evaluate each tender on the basis of these criteria. The successful tenderer is the one that offers the lowest price or the most advantageous aggregate estimated value taking into account non-price criteria and prices.

## 2.5. Dispute resolution mechanisms

Disputes between foreign investors and state entities related to the implementation of Moldovan legislation are settled by the Supreme Court of Justice or by the Arbitration of the Republic of Moldova. Parties may agree to submit the dispute for settlement by a foreign or an international arbitration institution.

All other disputes between enterprises with foreign participation and other individuals, legal entities, state institutions or public organizations can be settled by the district courts or by the Arbitration of the Republic of Moldova. The parties can submit their dispute to an arbitration court located either in Moldova or abroad upon mutual consent.

## 2.6. Operational costs (2006)

Average gross monthly salary, EUR	80
International phone call charges, EUR/min	0.2-1.6
Electricity prices, EUR/kWh	0.059
Water charges, EUR/cubic m	0.72
Natural gas, EUR/cubic m	0.1
Office rent/buy in Chisinau, EUR per sq. m/month	30-150
Industrial facility rent in Chisinau, EUR per sq. m/month	2-7
Flat rent in Chisinau, EUR/month	300-500

Source: Moldovan Export Promotion Organisation

## III. Taxation

### 3.1. Direct taxation

#### 3.1.1. Corporate income tax

<b>Taxpayers</b>	Legal and natural persons who obtain income from any sources on the territory of Moldova during the fiscal year, as well as legal and natural persons who receive investment and financial income from any sources outside of Moldova.
<b>Taxable income</b>	The gross income, including facilities obtained by the legal persons in a certain fiscal period, except for tax allowances and exemptions, for which the taxpayer is eligible. The fiscal year is the calendar year. The corporate profit tax returns must be filed in by 31 March of the year following the reporting year. All taxes must be paid in Moldovan Lei (MDL). For incomes realised in foreign currency, tax payments are made in MDL, using the official exchange rate at the date of payment.
<b>Tax rate</b>	18% (forecasted to be reduced to 15% by 2007)
<b>Tax allowances</b>	<ul style="list-style-type: none"> <li>• Ordinary and necessary expenses, paid or borne by the tax payer during the fiscal year, including during the activity of entrepreneurship</li> <li>• Delegation and representation expenses, expenses for insurance of legal persons are permitted under certain limits set forth by the Government</li> <li>• Assets depreciation, the level of amortization being calculated according to the category of property it applies to and the level of depreciation</li> <li>• Any bad debts</li> <li>• Any donations made during the fiscal year, but not more than 10% of the taxable income</li> </ul>
<b>Depreciation</b>	Depreciation is applicable to tangible property that is utilised in an entrepreneurial activity, whose period of exploitation is higher than 1 year and its value exceeds the amount of MDL 1,000. Depreciation is calculated by applying the linear method. To calculate depreciation, all fixed assets are classified into five categories, as the level of depreciation for each category ranges between 5 and 30%.
<b>Investment incentives</b>	<ul style="list-style-type: none"> <li>• Entities whose social capital exceeds USD 250,000 benefit from 50% exemption on income tax payment for a period of 5 consecutive years.</li> <li>• Entities whose social capital exceeds USD 2 million are exempted from income tax payment for a period of 3 consecutive years under the condition that at least 80% of the exempted profit tax is invested in own production facilities or government programmes for economic development.</li> <li>• Entities, for which the term of action of the abovementioned incentives has expired, are exempted from income tax payment for a period of 3 consecutive fiscal periods, by reduction of the taxable income with 50% of the investments made in long-term tangible assets (with the exception of vehicles, office furniture and assets with general household destination), including long-term tangible assets purchased on the basis of a leasing contract, but not exceeding the taxable income.</li> </ul>

<b>Exemptions</b>	<ul style="list-style-type: none"> <li>Enterprises with less than 20 employees and a turnover of under MDL 3 million that operate in the field of industrial production or services are exempted from profit tax payment for a period of 3 years. After the expiry of this exemption, the economic agents are also entitled to a 35-% reduction of the income tax for a period of 2 years</li> <li>Small enterprises, whose income originates from the sale of own goods or services are entitled to a 35-% tax rate reduction for a two-year period</li> <li>Commercial banks providing long-term loans for capital investment intended to finance certain types of development projects are exempted from tax on income received on these loans for up to a 3 year-term at a rate of 50%, and at a rate of 100%, provided that the loan has been given for more than three years and under the condition that the ordinary loan interest rate has been decreased by 25% and 50%, respectively</li> <li>Public authorities and public institutions financed by the state budget or by the budgets of administrative-territorial units, as well as by the state social security budget, are income tax exempted</li> <li>Non-commercial organizations are exempted of income tax in case they belong to a specified domain of activity and respect certain requirements</li> </ul>
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### 3.1.2. Personal income tax

<b>Taxpayers</b>	<ul style="list-style-type: none"> <li>Moldovan nationals receiving income from any sources within Moldova, as well as from overseas financial operations (investments)</li> <li>Any enterprise with the status of a legal enterprise: individual enterprise, limited partnership, general partnership and farms</li> <li>Foreign nationals</li> </ul> <p>To qualify as a taxable resident, an individual should be domiciled in the Republic of Moldova and must have lived 183 days or more in the country during one fiscal year.</p>								
<b>Taxable income</b>	<p>The gross income consists of:</p> <ul style="list-style-type: none"> <li>Income earned by the individuals</li> <li>Salaries and fees for services rendered by the individuals</li> <li>Cash or in kind revenues, other premiums paid by the employer</li> <li>Interests</li> <li>Compensation for temporary disability</li> <li>Rental income</li> <li>Revenues earned by lawyers and other professionals, commissions and other revenues</li> </ul> <p>The gross income does not include:</p> <ul style="list-style-type: none"> <li>Compensations received under insurance contracts</li> <li>Amounts received as compensation for illness</li> <li>Damages paid by a third party in case of accidents and/or permanent invalidity</li> <li>Reimbursement of business expenses</li> <li>Alimony, scholarship</li> <li>Dismissal compensations</li> <li>Donations and inheritances</li> <li>Income of personnel of international organisations</li> <li>Dividends, except those paid by non-residents, lottery prizes, etc.</li> </ul>								
<b>Calculation of income tax</b>	<table border="1"> <thead> <tr> <th>Annual income</th> <th>Tax rate, %</th> </tr> </thead> <tbody> <tr> <td>Up to MDL 16,200</td> <td>8</td> </tr> <tr> <td>MDL 16,201 - 21,000</td> <td>14</td> </tr> <tr> <td>Above MDL 21,000</td> <td>20</td> </tr> </tbody> </table>	Annual income	Tax rate, %	Up to MDL 16,200	8	MDL 16,201 - 21,000	14	Above MDL 21,000	20
Annual income	Tax rate, %								
Up to MDL 16,200	8								
MDL 16,201 - 21,000	14								
Above MDL 21,000	20								

<b>Income tax exemption</b>	<ul style="list-style-type: none"> <li>Each taxpayer (resident natural person) has the right of a personal tax exemption in the amount of MDL 3,600 per year. The Fiscal Code provides also a list of individuals who are entitled to a personal deduction amounting to MDL 10,000</li> <li>Income of resident natural persons from bank deposits and securities is exempted from income tax until 1 January 2010</li> </ul>
<b>Incomes under an employment contract</b>	<p>Employee's gross income includes basic pay, overtime pay, supplementary pay, awards and bonuses, compensation for unused holidays or vacation time and all other monetary or in kind benefits, as well as other services obtained without payment. Income tax is deducted from the employee's salary and paid by the employer at the same time as the monthly salaries are paid.</p> <p>A foreign individual with a local employment contract is in the same position as a Moldovan employee (if not employed within an international organization).</p>
<b>Social security contributions</b>	<p>The contributions are paid by the employer from the remuneration fund and other funds in the size of 29% as follows:</p> <ul style="list-style-type: none"> <li>Contribution owed by the employer: 27%</li> <li>Individual contribution owed by the employee: 2%</li> </ul> <p>Foreign citizens working in Moldova, which have a permanent residency in the country, have the obligation to pay social security contributions. If permanent residency in the country is not established, then it is not compulsory to pay social security contributions.</p>
<b>Medical insurance contributions</b>	<p>The system of compulsory medical insurance was introduced in 2004 and guarantees Moldovan citizens equal and qualitative health care. Foreign citizens having permanent residence in the Republic of Moldova have the same rights and obligations related to compulsory medical insurance as the Moldovan citizens. The compulsory health insurance premium, calculated on the salary is established at 2% for the employer and 2% for the employee. The compulsory health insurance premium, calculated as a fixed amount, constitutes MDL 664.8.</p>

### 3.1.3. Withholding taxes

Each payer of interest in favour of natural persons (except for individual enterprises and farms) and royalty (except for payments made to non-residents) is obliged to withhold from each interest and royalty a tax amounting to 20% of the payment.

Individual and business entities, as well as institutions and organizations which deliver the services listed below, are liable to withhold a tax of 5%:

- Rental and leasing services
- Auditing services
- Management, marketing and consulting services
- Bodyguard and safeguard services
- Services related to the installation and exploitation of computers, data processing, creation and maintenance of data bases, as well as other services related to information technologies

Non-resident individuals and legal entities are subject to the following withholding tax rates (without deductions):

- Royalty - 15%
- Income received from insurance and reinsurance agreements concluded in the Republic of Moldova - 10%
- Dividends, interest on loan liabilities of a resident, payments for rendering services and for income received from the sale of real estate located on the territory of Moldova (except leasing) - 10%

### 3.1.4. Road tax

The tax for using the roads is charged on an annual basis. The rate depends on the engine capacity, ranging from 54 MDL for vehicles with cylindrical capacity of up to 1,500 cubic cm, to MDL 2,160 for vehicles with cylindrical capacity exceeding 6,000 cubic cm.

Vehicles, which are transiting the country, are also subject to a tax payment formed by a fee for entering the country (EUR 245) and a fee for using the roads (EUR 0.05-0.3 per km).

## 3.2. Indirect taxation

### 3.2.1. Value added tax (VAT)

<b>Taxable person</b>	Each entity undertaking entrepreneurial activity (with the exception of public authorities and institutions) is obliged to register as a VAT payer, if during 12 consecutive months has performed deliveries of goods and services exceeding MDL 200,000 (about USD 15,600)
<b>VAT rate</b>	20%
<b>Reduced VAT rates</b>	<ul style="list-style-type: none"> <li>• Bakery and dairy products delivered on the territory of the Republic of Moldova: 8%</li> <li>• Natural and liquefied gases, both imported and delivered on the territory of the Republic of Moldova: 5%</li> </ul>
<b>Zero VAT rate</b>	<ul style="list-style-type: none"> <li>• Goods and services for export, all types of international cargo (incl. expedition) and passenger transportation</li> <li>• Electrical power delivered to the population through distribution networks, thermal energy and hot water delivered to the population by thermal energy enterprises, boiler houses, thermal stations and group stations</li> <li>• Import and/or delivery of goods on the territory of the Republic of Moldova, services intended for the official use of diplomatic missions in the country, as well as for personal use or consumption of the members of the diplomatic, administrative-technical personnel and of the members of their families living with them</li> <li>• Import and/or delivery of goods and services on the territory of the Republic of Moldova intended for technical assistance projects</li> <li>• Construction of dwellings financed from real estate loans</li> <li>• Goods and services exported from the Free Economic Zones out of the customs territory of the Republic of Moldova, into the FEZ from the rest of the customs territory of the country, as well as goods and services exchanged between residents of different FEZs in the Republic of Moldova</li> <li>• Services provided on the territory of the Republic of Moldova by enterprises from the light industry under processing contracts within active processing customs regime</li> </ul>

<b>VAT exemptions</b>	<p>VAT is not applied to a list of imported goods and services and deliveries of goods and services made by taxpayers, as follows:</p> <ul style="list-style-type: none"> <li>• Fixed assets introduced in the statutory capital of the economic agents</li> <li>• Residential premises and land where the house is located, as well as their renting</li> <li>• Food and non-food products for children according to an established list of tariff codes</li> <li>• State property, repurchased in the privatisation process</li> <li>• Financial services: banking operations, foreign exchange operations, operations for issuance of shares, bonds and other financial instruments, administration of investment and pension funds, insurance and reinsurance operations with the exception of services provided by intermediaries</li> <li>• Imported electrical power or one delivered to distribution networks with the exception of energy import transportation services</li> <li>• Medical services, except for cosmetic services, medicines and raw materials, medical materials, etc.</li> <li>• Editing of books and periodical publications</li> <li>• Goods and services financed by loans and grants given to the Government by International Financial Institutions</li> <li>• Goods introduced under transit customs regime, customs deposit, active processing regimes, local goods placed under the regime of re-import or passive processing</li> <li>• Gambling services, lotteries, etc.</li> </ul>
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### 3.2.2. Excise duty

<b>Subjects to excise duty payment</b>	<ul style="list-style-type: none"> <li>• Legal and natural persons processing and/or producing excisable goods on the territory of the Republic of Moldova</li> <li>• Legal and natural persons importing excisable goods, with the exception of goods exempted from excise tax payment</li> <li>• Legal persons undertaking gambling activities</li> </ul>
<b>Exemptions</b>	Excise duty is not paid for imports of humanitarian aid (as established by the Government), imports for technical assistance projects and diplomatic missions. Also, the legislation stipulates a list of customs regimes with exemption of excise duty payment (transiting, customs deposits, temporary imports, re-imports, passive processing, FEZ, etc).
<b>Excise duty rates</b>	<ul style="list-style-type: none"> <li>• Fixed amount according to the measurement unit of the goods</li> <li>• <i>Ad valorem</i> in percent applied to the market value of the goods</li> <li>• <i>Ad valorem</i> in percent applied to the cost of the license for gambling activities</li> </ul>

## 3.3. Double taxation treaties

The Republic of Moldova has signed double taxation treaties with the following countries: Albania, Armenia, Austria, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Canada, China, Czech Republic, Estonia, Germany, Greece, Hungary, Italy, Japan, Kazakhstan, Latvia, Netherlands, Poland, Romania, Russian Federation, Switzerland, Tajikistan, Turkey, Ukraine and Uzbekistan.

## IV. Donor funded programmes and projects

### Overview of main donors providing finance to Moldova

Currently Moldova is benefiting from technical and financial assistance of 13 bilateral TA donors (USAID, EU-TACIS, UK-DFID, Sweden SIDA, Japan JICA, Netherlands, Denmark, Germany, Canada, Austrian ADA, Italy, Switzerland) and 1 multilateral (UNDP). Three multilateral International Financial Institutions provide financial aid to Moldova (World Bank, International Monetary Fund, European Bank for Reconstruction and Development). Several bilateral donors provided the financial assistance in forms of grants and loans as well (Japan, EU, United States, the Netherlands etc.). In addition, the Soros Foundation and several private organizations run small development programmes in Moldova.

Approximately 50% of all on-going projects and about two thirds of the global budget were financed by two donors, the US and the EU.

### United States Agency for International Development (USAID)

The USA through USAID is the main donor for the Republic of Moldova. Its assistance represents about half of the total technical assistance received by the country. Over the whole period of co-operation, USAID has allocated about USD 300 million to Moldova. According to the USAID Assistance Strategy for Moldova 2001-2006, the main goals of the technical assistance are:

- To support fiscal and financial reform
- To develop small and medium-sized enterprises, especially in the agricultural sector
- To enhance democratic governance
- To develop a social safety net

### European Union

The EU assistance to Moldova is provided through different channels. The main assistance instrument is the TACIS programme, which includes both national programmes and regional programmes in areas, such as nuclear safety, cross-border and regional co-operation. The European Community has provided more than EUR 250 million in assistance to Moldova since 1991. This includes assistance under the TACIS programme, as well as support under thematic budget lines, such as the Food Security Programme (FSP) and the European Initiative for Democracy and Human Rights, macro-financial assistance and humanitarian assistance.

The implementation of the European Neighbourhood Policy will be supported by a new European Neighbourhood and Partnership Instrument (ENPI), applicable as of 2007, which will also improve the Union's capacity to support cross-border co-operation at the external borders. As regards financial assistance, ENPI will from 2007 onwards replace the current

EU assistance programmes in Moldova (TACIS and FSP). Until 2006, the Commission is substantially enhancing the co-ordination of existing instruments for cross-border co-operation in the so-called "Neighbourhood Programmes".

As of 2007, EU's assistance will be provided through a new set of instruments. Technical assistance will no longer be the predominant tool of the Commission's programmes to Moldova. As indicated in the ENPI Action Plan, new co-operation tools, such as Twinning or TAIEX will play an essential role in the achievement of the Action Plan's priorities. These instruments, as well as other types of assistance (infrastructure and equipment funding, pool funding and budgetary support, in particular in the context of sector-wide approaches, will be available and used whenever appropriate.

### United Nations Development Programme (UNDP)

Moldova began co-operation with the United Nations in March 1992. During that period, the operations of UNDP have been guided by an initial Short-term Country Framework (1993-1995), the first Country Programme (1994-1996), and the first Country Co-operation Framework (1997-1999) with its subsequent extensions (1999-2001). The second Country Co-operation Framework for Moldova covers the period 2002-2006. UNDP's overall assistance to Moldova during 1993-2005 has amounted to over USD 27 million, of which more than USD 12 million have been UNDP's core funds and about 15 million USD have been project specific contribution.

At present, UNDP in Moldova focuses its projects in three areas of intervention, which are priorities for the period 2002-2006:

- Millennium development goals and poverty reduction
- Local development
- Access to justice and human rights

### UK Department for International Development (DFID)

Moldova is one of DFID's focal countries in the region for the period 2004-2007. DFID's bilateral programme amounts to GBP 2.3 million (2005-2006) and focuses on improving governance, promoting pro-poor growth and conflict resolution. DFID is also developing opportunities for joint programmes with other development partners in Moldova, providing on average of GBP 3.9 million annually to the European Commission, United Nations, European Bank for Reconstruction and Development, and the International Development Association. DFID's activities cover:

- Support for the implementation of harmonised approach to the poverty reduction strategy
- Improvement of statistical analysis
- Improvement of public financial management
- Support to the Peace Building Framework project through the Global Conflict Prevention Pool Strategy

**The World Bank**

Moldova joined the World Bank in 1992. Two years later it joined the International Development Association - the soft lending arm of the World Bank. Since then, World Bank lending has consistently supported the country's economic reform programme by working to reduce poverty and raise the living standards of the people.

The World Bank has disbursed approximately USD 305 million in investment and technical assistance for economic restructuring since 1992. It has been active in social sector reform and pension reform. It also supports a USD 20 million Social Investment Fund, which funds micro-projects at the village level.

At the end of 2004, the World Bank has approved the Country Assistance Strategy for 2005-2008, which opens wide perspectives for the Republic of Moldova. Between 2005 and 2008, the World Bank intends to offer the Republic of Moldova assistance amounting from USD 90 to 135 million. The support will be provided for the following Economic Growth and Poverty Reduction Strategy Paper's medium-term priorities:

- Promotion of economic stability, growth and employment conditions
- Improvement of the access to social services, improvement of the community infrastructure, reducing risk factors
- Improvement of the public sector activity and the fight against corruption

**Budget distribution by sectors in 2005 (USD million)**

Sector	Number of projects	Budget		
		Global, USD mln	Committed in 2005	
			USD mln	% of total
Budget Policy	2	12.84	0.33	0.44
Public Sector Reform	33	58.82	13.91	18.57
Judicial System	10	10.27	3.00	4.01
Private Sector Development	19	70.39	12.98	17.33
Infrastructure	12	11.56	5.32	7.10
Agri-food and Rural Development Sector	11	42.97	14.25	19.02
Regional Development Policy	10	6.61	1.79	2.39
Tourism	2	0.60	0.39	0.52
Environment Protection and Sustainable Use of Natural Resources	19	8.88	2.43	3.24

Education	20	3.95	2.65	3.54
Health	13	13.92	5.69	7.60
Social Insurance and Social Assistance	23	28.22	7.01	9.36
Labour Market	11	12.45	2.68	3.58
Youth Policy	1	0.20	1.61	2.15
Development of National Statistics	6	4.29	0.34	0.45
Implementation, Monitoring, Assessment	4	1.85	0.53	0.70
<b>Total</b>	<b>196</b>	<b>287.82</b>	<b>74.91</b>	<b>100.00</b>

**Useful Internet links**

Government of the Republic of Moldova	<a href="http://www.moldova.md">www.moldova.md</a>
Ministry of Foreign Affairs and European Integration	<a href="http://www.mfa.md">www.mfa.md</a>
Ministry of Economy and Trade	<a href="http://www.mec.md">www.mec.md</a>
Ministry of Transport and Road Administration	<a href="http://mci.gov.md">http://mci.gov.md</a>
Ministry of Information Development	<a href="http://www.registru.md">www.registru.md</a>
Moldovan Export Promotion Organization	<a href="http://www.mida.md">www.mida.md</a> ; <a href="http://www.mepo.net">www.mepo.net</a>
Privatization Agency	<a href="http://www.privatization.md">www.privatization.md</a>
Department of Culture and Tourism	<a href="http://www.turism.md">www.turism.md</a>
National Bureau of Statistics	<a href="http://www.statistica.md">www.statistica.md</a>
National Bank of Moldova	<a href="http://www.bnm.md">www.bnm.md</a>
Moldovan Companies' Database	<a href="http://www.yellowpages.md">www.yellowpages.md</a>
Moldova Internet Directory (links and news)	<a href="http://www.ournet.md">www.ournet.md</a>
Moldova News	<a href="http://www.azi.md">www.azi.md</a>
State News Agency Moldpress	<a href="http://www.moldpres.md">www.moldpres.md</a>

**International institutions in Moldova**

The World Bank mission to Moldova	<a href="http://www.worldbank.org.md">www.worldbank.org.md</a>
International Monetary Fund	<a href="http://www.imf.md">www.imf.md</a>
European Bank for Reconstruction and Development	<a href="http://www.ebrd.com/country/country/moldova/index.htm">www.ebrd.com/country/country/moldova/index.htm</a>
EU Delegation to Moldova	<a href="http://www.delmda.cec.eu.int">www.delmda.cec.eu.int</a>
United Nations	<a href="http://www.un.md">www.un.md</a>
US Agency for International Development (USAID)	<a href="http://www.moldova.usaid.gov">www.moldova.usaid.gov</a>