

## **DISCOVERING TRADE AND INVESTMENT OPPORTUNITIES IN MOLDOVA**

**Outlines of the presentation made by H.E. Nicolae CHIRTOACĂ, Ambassador Extraordinary and Plenipotentiary of the Republic of Moldova to the United States of America**

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### **1. New Perspectives for Development**

In November 2006, the Millennium Challenge Corporation invited the Republic of Moldova to participate in a Compact-development process. During 2007 the Government in consultation with the civil society and private sector will develop the Compact program strategy and proposal. This is a 5-year program, and the funds can vary from 150-500mln dollars providing the following opportunities:

- to accelerate the economic development and grows based on the market economy mechanisms;
- to eradicate the poverty and to enhance the social stability in Moldova;
- to build human and institutional capacities necessary for sustainable economic and social development of the country;
- to increase the level of private investments, both domestic and foreign.

One of the innovative approaches of this assistance is the principle of country ownership. The country should identify critical obstacles to its economic growth and develop an adequate strategy to overcome them. At the end of 2006 the Republic of Moldova and the United States signed a \$24.7 million Millennium Challenge Corporation Threshold Program Agreement.

In December 2006 within the Donors Consultative Group Meeting in Bruxelles, the Government of Moldova assessed the progress and confirmed the commitment in the implementation of the country's reform program and development agenda, as set out in the EU-Moldova Action Plan and the Moldova Economic Growth and Poverty Reduction Strategy Program.

The donors decided to offer to Moldova a financial support of more than US\$ 1.2 billion for the next three years. About 50% of this assistance is expected to be provided as grants.

### **2. Openness to foreign investments**

The foreign investments are regarded by the Moldovan Government as the main engine for economic recovery and stabilization of the Moldova's market economy, having the following impact on the country's economic and social situation:

- foreign investments contribute directly to the economic growth, development and modernization of the national economy;
- foreign capital plays a structural role by developing the most competitive sectors of the Moldova's agriculture, industry, trade and services, by modernizing and restructuring the production capacities;
- foreign capital in the form of loans and credits invested in the real sector of economy finally contribute to the maintenance of basic monetary, financial balance and macroeconomic stability;

### 3. Major foreign investors

METRO Group (Germany), Turkcell (Turkey), Lafarge (France), Knauf (Germany), Steilman Gruppe (Germany), QBE (International Corporation), Efes Pilsner (Turkey), Union Fenosa (Spain), Summa, Lukoil Company (Russia), Azpetrol (Azerbaijan), France Telecom (France), Südzucker (Germany), CocaCola (USA), TransOil Ltd (Russia)

### 4. Major foreign donors

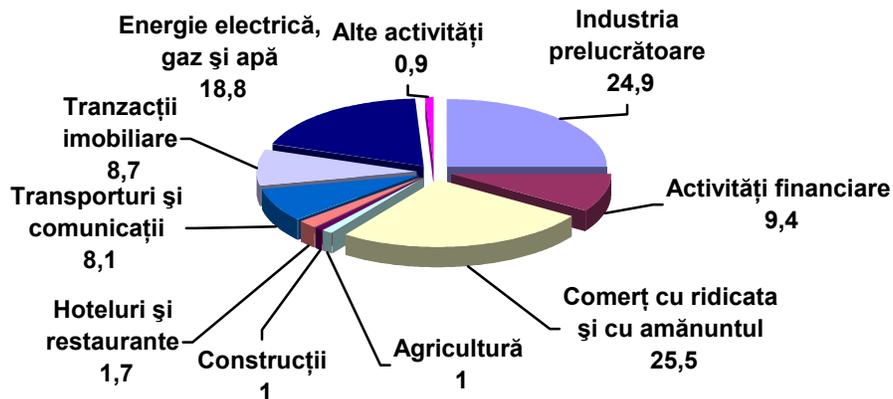
USAID, Millennium Challenge Corporation, European Union, World Bank Group, International Monetary Fund, European Bank for Reconstruction and Development, Swedish International Development Cooperation Agency

### 5. Openness to foreign investments

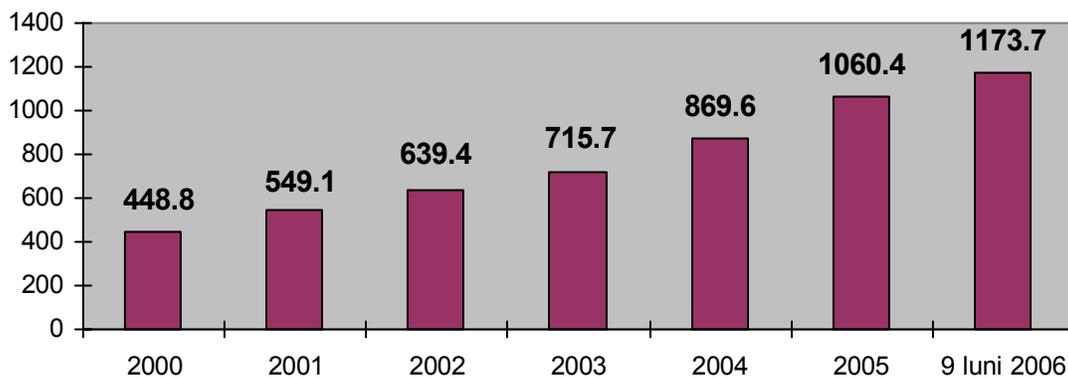
Top 10 countries according the investments in Moldova's economy as on the January 1st, 2006

Nr.	Country	million US\$	% of total
1	Russia	166.08	28.7
2	Spain	81.68	14.1
3	USA	44.17	7.6
4	Netherlands	43.00	7.4
5	United Kingdom	32.26	5.6
6	Germany	24.71	4.3
7	Romania	19.22	3.3
8	Switzerland	18.67	3.2
9	Cyprus	18.22	3.2
10	France	17.45	3.0

## 6. Foreign direct investments by sectors last data from October 1, 2006



## 7. Foreign Direct Investments (FDI) Inflows



**Total cumulative since 1994: 1.17 billion US\$**

Investors from 42 countries are investing in Moldova, the major investments being from European Union countries, CIS countries, USA, Romania, Cyprus and Canada.

There are 4907 registered companies with foreign capital that operate on the Moldova's market.

## 8. International Agreements and the Attraction of Investments

- June 2001 – Moldova becomes member of WTO
- June 2001 – Moldova becomes member of Stability Pact for South East Europe (SPSEE)
- Free Trade Agreements signed with 10 CIS countries (except Tajikistan)
- Free Trade Agreements with all SPSEE member-countries
- The Republic of Moldova benefits from the General System of Preferences Plus (GSP+) granted by the EU (7200 group of products have access to the EU market, custom tax free )
- In 2007 the EU is expected to take the decision on granting the Republic of Moldova the Autonomus Trade Preferences, allowing all products originating from Moldova to enter the EU without quantitative restrictions and customs duties

## 9. Key elements in attracting investments

- Favorable geographical position at the crossroads of commercial routes that join Western Europe and Eurasia space countries enhanced by communications and transportation network production;
- Beginning with the January 1st 2007, with the accession of Romania to EU, Moldova became the neighbor of the European Union;
- Access to the majority of the regional markets – from the European Union to Commonwealth of Independent States;
- A network of existing free economic zones, thus guarantying preferential conditions to attract foreign investments in development of competitive modern technologies;
- Adequate legal framework adjusted to standards of the EU (*aquis communitaire*).

## 10. Investment Facilities

- Foreign investments that constitute more than US\$250 000 in equity capital of the enterprise – there is a 50% reduction of corporate income tax for the period of 5 years;
- Foreign investments of US\$2,000,000 or more in equity capital – no corporate income tax is paid for the period of 3 years;

### For 2007 it is provided:

- Foreign Direct Investments in the statutory capital that exceed the equivalent of USD 2 (5, 10, 20, 50) million and are reinvested in the development of their own

production, or in other national economy development programs, at least 80 (50, 25, 10) % of the calculated but unpaid amount of the income tax – 100% corporate income tax exemption during 3 (3, 3, 4, 4) years.

**Other incentives:**

- IT companies and employees of IT companies are exempted from income tax payment for a period of 5 consecutive years;
- Imported material goods to be included in equity capital are exempted of VAT and customs tax payment;
- Special incentives for activity within a Free Economic Zone.

**11. Taxation**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Corporate income Tax (%)	18	15	15
Personal income Tax (%)	9,14,20	8,13,20	7,10,20
Social security payments (%)	27	26	25

**VAT rates:**

**Ordinary rate:** 20% - applied to manufactured and imported goods and services in Moldova

**Reduced rate:**

- 8% - Bread, milk and their derivatives
- 5% - Natural gas and its products

**Excise duty applied on:** Alcohol products, tobacco, petroleum and its products, cars, gambling activities.

**12. Free Economic Zones**

“Expo-Business-Chisinau” – located in the capital city; “Ungheni” – 107 km from the capital; “Tvardita” – 115 km; “Otaci-Business” – 220 km; “Vulkanesti” – 200 km; “Taraclia” – 153 km

**Facilities:**

- Import of raw material exempted from all taxes, excise and VAT, if exports > 70 % of total sales
- Corporate tax exemption for 3 years – investments > 1 mln USD
- Corporate tax exemption for 5 years - investments > 5 mln USD

**13. Legal Framework**

The main legislative act that regulates the foreign investments in Moldova - the Law on Investments in Entrepreneurial Activity, enforced in 2004, which provides:

- Freedom of investments;
- Non-discriminatory investment environment;
- Safeguards against investment expropriation or similar practices;
- Guarantees the repairing prejudices;

Local and foreign investors have equal rights under the Moldovan legislation, as 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.

#### **14. Non - discriminatory investment environment**

- Foreign investors may make their investments throughout the Republic of Moldova, in any area of business activity, as long as it does not go against the interests of the national security, anti-monopoly legislation, environment protection norms, public health and public order
- Moldova commits itself 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
- Local and foreign investors have equal rights under the Moldovan legislation, as 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.

#### **15. Main domains for foreign capital investments**

1. Agriculture
2. Wine production
3. Information technologies (IT)
4. Electrical and radio-electronics sector
5. Construction –real estate
6. Tourism

##### **1. Agriculture**

- 75% of total arable land is “black soil”;
- Appropriate country climate (average temp January – 3.5° C);
- Food industry is a major player in the domestic industries and accounts for about 50 % of the total country’s export;
- 40 % of the total population is working in agriculture;
- Strong wine and raw material producing industry;
- Stable and growing fruit and vegetable processing industry;

##### **2. Wine production**

- 2.3 % of world vineyards (147 th. ha)

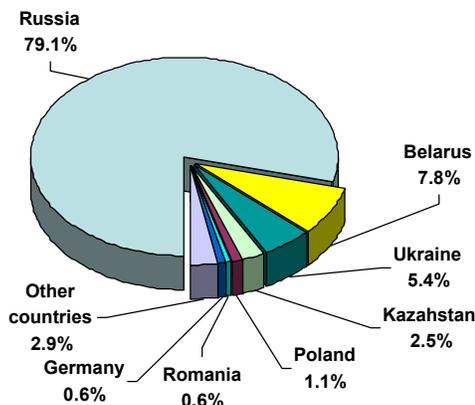
- 9% of country GDP
- 25% of employed workforce
- 30% of country's exports

**Alcohol Beverages Producing Companies:**

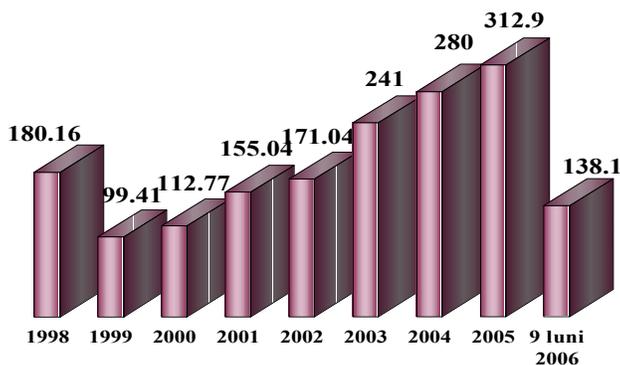
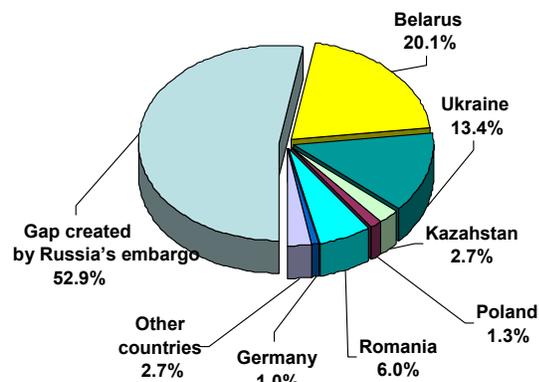
- 130 wineries
- 20 producers of divine and brandy
- 10 producers of sparkling wine
- 3 large wine cellars

**Wine Export**

2005



2006 (preliminary data)



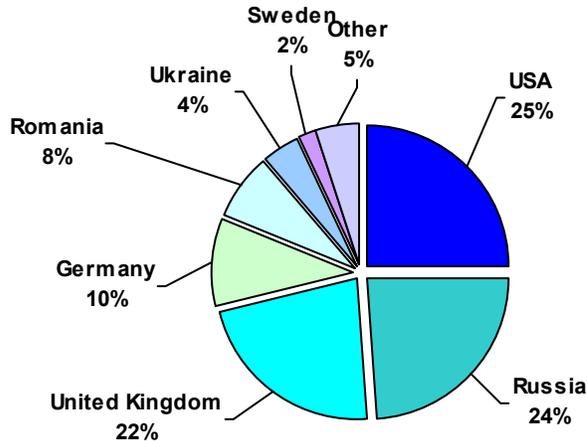
Wine exports 1998-2006 in million USD \$

**3. Information Technologies**

- More than 110 companies currently develop software
- Four universities form specialists in this field (1000 graduates annually)

- Turnover of software development companies exceed USD 20 millions
- Exports are estimated at USD2 million.
- The main importer of Moldovan software is US

#### **Software export, %**



#### **4. Electrical and radio electronics sector**

- Comprises 20 large enterprises and scientific institutions;
- Products: Non-destructive testing equipment, connectors for transducers, recharge devices, power electronic devices, electronic instant water-heaters, pumps, micro-controller programs, automated control systems, cable systems, components for electronic industry;
- Moldova is welcoming foreign investments in the following sectors: telecommunication networks, fiber optics, consumer and industrial electronics, semiconductor electronics, medical electronics, assembly technologies, power electronics, converters, integrated circuits and circuits for the automobile industry.

#### **5. Construction and real estate**

- Availability of local raw materials: limestone, granite, natural stone, clay, brick materials. Presence of mineral sediments: heat resistant glue, chalk, ceramic glue, quartz etc.;
- Investments are welcomed in real estate market development, as demand exceeds supply;
- High demand for residential properties, as well as for non –residential real estate.

#### **6. Tourism**

Area of investments:

- Rural tourism
- National tours
- Wine paths tours
- Business tours

- Historic Monuments
- Recreational places