

A former Soviet state hopes to join the European Union within ten years. Is now a good time for foreign investors to buy in? 'Yes,' says one of Moldova's leading lawyers. **Stephen Neale** reports

Moldova is Ready for EU



Alexander Turcan,
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**President of
Moldova
Vladimir Voronin
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Speak to a Moldovan business lawyer over lunch, and there are two things to discuss: Moldova's expected entry into the EU, and the opportunities available to foreign investors.

Turcan & Turcan is a firm with a significant international approach. On March 2008, the company advised Lehman Brothers and Morgan Stanley on Moldovan law issues and due diligence for the €100m acquisition of shares in the regional real estate holding Adama. In another standout deal, the firm advised the European Bank for Reconstruction and Development in the process of the guaranteed €42.8m financing of the development of Shopping MallDOVA – the Turkish-owned and operated most modern retail shopping and entertainment mall in Chisinau that officially opened in December 2008.

For Alexander Turcan, Managing Partner of law firm Turcan & Turcan, Moldova's future is very much linked to closer ties with the international community.

"Moldova's strategic objective is European integration, a position that most nationals believe to be the country's true destiny," he says. "Moldova offers today what no other place in the region can. A new market neighbouring the EU, determined to see itself in the EU. "For that reason, Moldova offers an attractive investment opportunity right now."

Geography

The former soviet state borders two nations

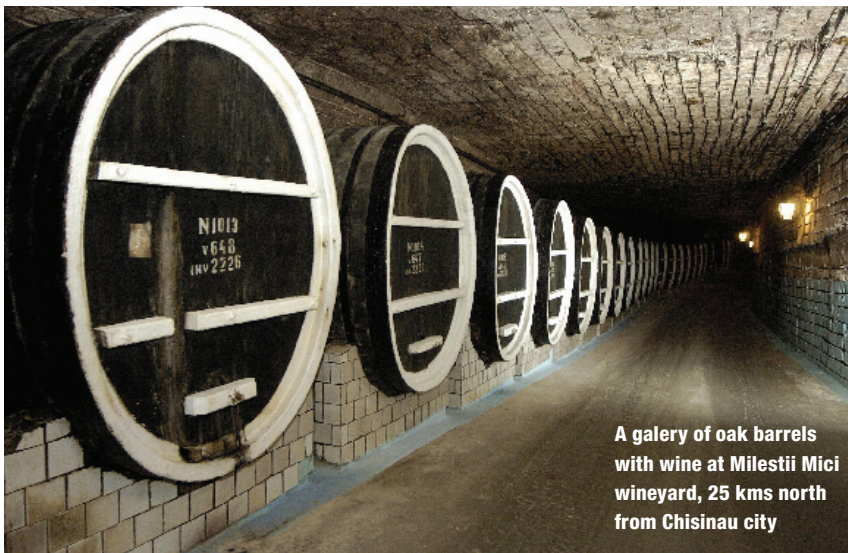
– Romania and Ukraine and its language is closely linked to French, Spanish, Italian and Portuguese.

The latest government statistics show that EU-member Romania became Moldova's top foreign trade partner in 2008. During the first half of 2008, the export of Moldovan goods to the Romanian market increased by 64 percent against January-June 2007.

Although it has no direct borders with Russia, much of the country's previous trade was conducted there. Russia lost some of its status as principal economic partner following the wine embargo during 2006-2007. Several Moldovan businesses experienced difficulties as a result, although some believe the row helped facilitate closer ties to the EU in the longer term. Foreign ministers from the European Union 27 nations decided in October 2008 to improve ties with Moldova by negotiating 'a new and ambitious agreement'. This arrangement is expected to go beyond the current 'Partnership and Cooperation Agreement', and could include a free-trade area, to pave the way for full liberalisation of trade with the EU.

Turcan, who has worked closely on major public/private state developments, explains: "The aim of the agreement would be gradually to bring Moldova and the EU closer together.

"A visa-free regime for Moldovans travelling in the EU is also expected to be one of the issues covered by such agreement." The desire to see the nation become a part of European Union is welcomed by both sides. The state currency – the Moldovan Lion (Leu) – is one of the strongest in the world.



A gallery of oak barrels with wine at Milestii Mici winery, 25 kms north from Chisinau city

Stable currency

On December 11, data provided by BCR Banca Comerciala Romana (Romanian Commercial Bank) declared that the Moldovan Lei (MDL) was one of the most stable national currencies in the world, second only to the Czech Koruna (CZK). This was because for the 11 months of 2008 the MDL has grown to the US dollar by 9.1 percent and to the euro – by 24.4 percent. The report stated that strength was due to the monetary policy implemented by the Moldovan central bank, which increased its interest rates to 18.5 percent.

Despite this, most Moldovans think of their big purchases in euros.

“For about four years now the euro replaced the US dollar (unlike in Ukraine or Russia) as the ‘back-of-the-mind’ currency of Moldovans,” says Turcan.

“Rarely one can encounter in Moldova prices of real estate, cars, airline tickets or other major consumer purchases to be quoted in any currency other than the euro.

“Moldovans will not experience any culture shocks if one day the euro replaced the Moldovan lions as the local legal tender.

“When Moldova joins the EU, consumers will be ready to adopt a new currency without much hesitation or inconvenience.”

Some analysts point to possible internal problems relating to a dispute between Moldova proper and Transdnistria.

The area, also known as the self-proclaimed Transdnistrian Moldovan Republic (TMR), claims the Eastern region in the former Moldova. The regime is not recognised by the ruling Moldovan national government that

considers the TMR territories to be a part of Moldova’s sovereign territory. Although the disputed far Eastern region is small, it is highly industrialised.

Peaceful

Many Moldovans insist a peaceful resolution can be established as ethnically, both Moldova and Transdnistria are inhabited mainly by Moldovans, Ukrainians and Russians. Neighbours mostly share the same social background and predominantly Christian Orthodox religion. Many residents of Moldova and Transdnistria are friends and even relatives, and the unrecognised ‘border’ between the two is mostly open to virtually unrestricted travel. Military conflict in 1992 was a short-term. “There are no thoughts of any military activity re-emerging,” says Turcan, who views the prospect of the two sides coming to a settlement as another future bonus for targeted market growth.

“Moldovans are an extremely peaceful nation.” So what of investment opportunities now? Moldova, as it is today, shows significant potential for growth because of significant state-supported investment and collaboration between the public/private sectors.

Public projects

Perhaps more importantly – while neighbouring EU states are drafting vast public projects to help regenerate their economies – infrastructure developments in Moldova are on the increase. Roads, power stations and electric lines, oil and gas pipes, irrigation systems, communication cables are just some of the schemes already being discussed or undertaken.

The Moldovan government has some experience of partnerships with private businesses (PPPs).

During 2008, Turcan & Turcan, while acting for clients from the European Union, was involved in several of these projects, which included building a new power plant on the border between Moldova and the EU, on expanding and modernising Moldova’s main civil airport and in negotiation of road construction contracts.

While infrastructure developments are important to the nation’s future, agriculture remains a staple industry, as has it been for centuries.

Moldova was the most densely populated of 15 republics of the former USSR. Although the government blocks foreigners or foreign-owned (fully or partially, directly or indirectly) companies acquiring farm land, long-term leases on farm land are not restricted.

Turcan believes this is an area investors can explore. He explains: “The quality of Moldovan agricultural lands is unrivaled.

“Is there potential for business in the Moldovan agriculture? If we are to trust those who say that the world is going through a food products crisis due to unprecedented demographic growth, then maybe.

“Moldova always was one of the most beautiful and fruitful gardens of the East. “I personally like to call Moldova the California of former USSR. No wonder why Sacramento, California’s capital is the sister city of Moldova’s capital city Chisinau.”

If there are issues around farm land ownership, there are no such problems in the wider real estate sector. Foreign individuals and entities are able to acquire non-ag real estate (such as buildings and land plots) directly, i.e. even without having to set up a local company (as required by the laws of many neighboring jurisdictions).

Moldova offered some of the lowest real estate prices in Europe before global markets destabilised during the current downturn.

But while other countries in the region have experienced significant declines in values, Moldovan properties are buoyant.

Opportunity

Turcan says although investors are right to be cautious before investing in countries made up of the Commonwealth of Independent States (former soviet states), Moldova represents one



of the best opportunities.

In 2009, the country will preside over the CIS community, while the Czech Republic takes over the rotating presidency of the European Union. "Starting a business in Moldova is a good pilot project for those cautious investors willing to take over CIS markets because it offers investors a chance to test the mentality of CIS consumers," says Turcan.

"A business in Moldova offers investors a chance to develop a Moldovan-based multilingual resource of mid-to-high-level managers that is predominantly well educated and always fluent in the Russian language – so important for anyone willing to take on the CIS markets."

The quality of proven professional qualifications, means that many Moldovans have been invited to lead important international companies, either after graduating from Western university or after successfully leading a Moldovan subsidiary of an international company.

At least three major foreign investors in Moldova preferred local CEO appointees to expats during 2008. Spain's electricity company, Union Fenosa appointed Mrs. Silvia Radu, the first woman CEO in the Union Fenosa Group of companies internationally. Moldcell, a GSM joint venture of TeliaSonera and Turkcell, promoted its local sales director to CEO position, who became the first local CEO in the Eurasian region of TeliaSonera's subsidiaries. France Telecom's GSM arm, Orange, also named a local CEO after 11 years of French management. The new CEO of Orange Moldova is also among the very few women CEOs of Orange companies worldwide. The average age of all three is 34 years and they are at least trilingual, as are the majority of hundreds of staff who work for their respective companies. If professionalism and talent within the workforce is an asset, so is Moldova's record regarding equality.

It ranks among the first eight European countries and 20 countries of the world in terms of gender equality, according to the third report on the global index of gender equality, presented in November at the World Economic Forum.

The report on the global index of gender equality is annually prepared at the request of the World Economic Forum and includes 130 states, accounting for 90 percent of the world's entire population. Moldova



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ranked among such European countries as Germany, Great Britain, Switzerland, France, Spain, Ireland, the Netherlands and Latvia, showing one of the highest levels of equality between men and women in terms of obtained incomes in 2008. As many as 22 women are in the Moldovan parliament (out of a total of 101) and 11 in the government. For the first time ever, the majority faction in the Moldovan Parliament, as well as the Moldovan government, is headed by women.

Tax incentives

While the country's professional sector is attracting attention, so is its tax incentives. Moldova does not tax at all the reinvested profits and it taxes dividends by default at only 15 percent.

More importantly, it allows lower rates of zero percent, five percent and 10 percent to investors from those countries with which it has made bilateral tax treaties (it has a good tax treaty with Cyprus and an even better one with the Netherlands).

"Those who are in the business know why these jurisdictions are so attractive," says Turcan. Significant tax incentives also exist in the IT sector. To keep the many local IT professionals on board, Moldova fully exempted IT companies from payroll taxes, which makes Moldova an attractive base for international IT operators who more and more are setting foot on local ground.

Privatisations

The country's government remains committed to selling many more companies in which it

holds equity stakes, so that 'businesses can care about business'.

In 2008 alone, after a seven-year stay in privatisations, Moldova has offered for sale its equity stakes in more than 300 companies, of which about 80 have been sold, which is an all-times record for Moldova.

In September 2008, the Government of Moldova has appointed the largest French bank BNP Paribas to act as its consultant in the process of privatisation of the majority shareholding held by the state in Banca de Economii S.A. (the Savings Bank). BNP Paribas had competed with three other regional investment advisors for this mandate. Turcan & Turcan is acting in consortium with BNP Paribas in advising the Moldovan Government on what is likely to become the largest privatisation transaction in the history of modern Moldova.

Financial services

Moldova is reported to have very low levels of debt, and Moldovan banks have high capital-to-asset ratios and relatively low levels of lending. According to the World Bank, banks in Moldova have extended loans worth just 35 percent of GDP, compared with the US, where domestic bank lending has reached 230 percent of GDP.

The Moldovan banking system is gradually Europeanising. Bankers of Italy's Gruppo Veneto Banca (in 2006) and France's Societe Generale (in 2007) took over full or almost full ownership of two medium-sized Moldovan banks, with the assistance of Turcan & Turcan who in the first deal acted for the Italian purchasers and in the second deal helped a US private equity fund advised by the same BNP Paribas sell the banking asset to the French buyers.

"I will only say that our firm is proud to have been involved in both of these precedent-setting transactions that have pumped new genuine European blood into the Moldovan banking system," says Turcan.

"I am not an economist and not a politician. I am a lawyer who manages a very healthy and internationally recognised domestic legal practice in Moldova. We are a law firm that for ten years now manages to protect the interests of its predominantly foreign and multinational clientele."

Turcan's workload means he will not always be available for lunch-time debates on Moldova's credentials for EU membership.

His advice? Lunch later, invest now.