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Corporate Governance:
Securities Market in Moldova

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EXECUTIVE SUMMARY

This paper offers analysis of corporate governance issues behind stock market performance (stock returns and activity) in Moldova - one of the Central and Eastern European (CEE) countries.

Born during the years of mass privatization, securities market of Moldova enjoyed the support for the growth from U.S. Government on behalf of U.S. Agency for International Development (USAID), The Western NIS (New Independent States) Enterprise Fund (WNISEF) and U.S. Securities and Exchange Commission (SEC).

Moldova is a member Federation of Euro-Asian Stock Exchanges (FEAS), but has joined neither The World Federation of Exchanges (WFE), nor The International Organization of Securities Commissions (IOSCO).

On the basis of three variables, reflecting the development of Stock Exchange, market capitalization of listed companies over gross domestic product (GDP), Value traded over gross domestic product (GDP), Value traded over market capitalization (also known as turnover ratio), I find that the securities market in Moldova is still undeveloped and of very low liquidity. This fact can be explained by a high level of shadow economy (60%), weak macro-economic situation in the country and imperfect Corporate Governance framework. In its turn this leads to a very low investment activity, almost total absence of IPO and prevalence of Off-exchange market.

Furthermore, I see the investment funds in Moldova as having a lot of potential to facilitate the development of the capital market of Moldova. However, these funds, being established in the years of mass privatization for vouchers (bonds) have not invested any real capital into the owned companies and continue to be holding companies rather than actively engaged in portfolio investment. Therefore I support the process of reorganization of investment funds and turning them into really Investment and not just Asset Management Institutions.

And I find that the enforcement of adequate regulations would give a highest positive impact for the development of the stock market in Moldova under condition of the positive growth in the country's economy.

In the CIS and some Eastern European countries, weak laws and regulations, slow progress on private sector development, a limited supply of institutional investors, and macroeconomic uncertainty pose serious obstacles to stock market development (Claessens, Djankov & Klingebiel, 2000)

The existence of Stock Exchange in Moldova, undoubtedly, is a positive moment for the transition economy. However, the major prerequisites of successful stock market would be among others sufficient supply of funds, sufficient demand for funds, stable macro-environment, adequate legal and regulatory framework, sufficient size.

Macro-stability is the weakest point for Moldova, being one of the poorest countries of the CIS and having 60% of shadow economy in place. Herewith, I would like to opinion of Hernando De Soto, who said that "to explain the scale of 50-80% of a shadow economy by a desire of population to avoid tax payments would be at least a mistake. The majority of people stay in illegal sector not because it gives a tax shelter, but due to the fact that Government laws in force are not meeting needs of population." It is hard to talk about healthy securities market until the shadow economy stays at the level of 60% in the country.

When talking about Corporate Governance framework in Moldova, I would like to mention that the corporate laws look fairly good and democratic, but their enforcement and awareness still remains to be a major target for the future. The major flaw I can see is that the legislation in Moldova, being highly "westernized", doesn't take into close consideration the fact of "doing business in Moldova as former Soviet Union country". Independent for only 13 years, since 1991, Moldova has a lot of activities to perform in order to comprehend completely the realities and rules of capitalistic world.

The basic feature of the securities market of Moldova as well as for the stock markets of Czech and Slovak Republics, Bulgaria, Lithuania, FYR Macedonia and Romania, was the transfer among investors of ownership rights to mass-privatized companies. At first these markets listed a large number of stocks, many of which were illiquid. But once the markets became more established, through transactions at stock exchanges, the number of stockholders fell and ownership became more concentrated.

Table 1. Origins of Stock markets (Source: Claessens, Djankov & Klingebiel, 2000)

Mandatory listing after mass privatization	Voluntary Initial Public Offerings	Mandatory Listings of Minority Packages during Privatization
Bulgaria Czech Republic FYR Macedonia Lithuania Moldova Romania Slovak Republic	Croatia Estonia Hungary Latvia Poland* Slovenia	Armenia Azerbaijan Kazakhstan Kyrgyz Republic Poland* Russia Ukraine Uzbekistan

Note: Poland also had mandatory listings of mass-privatized companies and National Investment Funds after 1996. See Hashi (2000) for a detailed description of the program.

It this stage of development of the corporate sector, according to the most important stakeholder groups in Moldova are :

- Major foreign corporates (who often tend to acquire controlling stakes);
- Large Moldovan investment funds (that often join around themselves wealthy Moldovan individuals and groups);
- Government of Moldova;
- Well-established Moldovan private companies that decide to pursue new businesses by means of buying controlling interest or establishing new entities.

Application in practice of shareholder rights depend on a number of factors, such as:

- awareness of the shareholders of their rights;
- interest of shareholders in observance of their rights;
- the number of shares held in the company.

Even though recently there have been certain attempts to inform the public on the legal provisions regarding shareholder rights, many shareholders are not yet fully aware of their legal rights.

This especially refers to minor shareholders, employees of state enterprises who acquired their shares in the process of privatisation of such enterprises and their transformation in Joint Stock companies. Minor shareholders show little interest in the activity of the company. Very often shareholders fail to attend general meetings of shareholders, which leads to minimisation of their participation in decision-making process.

As a general comment, many rights that would be considered inherent to any given stakeholders in a Western jurisdiction need to be actively claimed and enforced in Moldova before they will become a common practice.

The privatization program for Moldovan housing, industry, trade, and services began with the adoption of the Law on Privatization in July 1991. The plan was initiated through mass privatization, voucher program, small-scale cash privatization, and sale by tender of more important objects.

The 1993-1994 State Privatisation Program regulated the first stage. That program was approved by the Moldovan Parliament in March 1993, its implementation starting only by the mid of 1994 immediately after establishing the Ministry of Privatisation and creation of the adequate legislative framework.

The first program started mass privatization for National Patrimonial Bonds (NPBs), prototype of the vouchers in Russia. Only the citizens of the Republic of Moldova were entitled to participate in the mass privatisation process by using their bonds (NPBs). Under the privatization program, Moldovans received NPBs according to the number of years that they worked for the state, and could use them to buy their homes or buy shares in 1,580 state commercial companies (source: Report on Moldova by BISNIS, 1999). Bonds themselves were not tradable, but could be redeemed for a share of specific enterprise or used to purchase stock, which could later on be freely sold to both foreign and domestic bidders. The mass privatisation for bonds (NPBs) completed by November 1996, constituting the key component of the 1993-1994 and 1995-1996 Privatisation Programs.

The second stage (March 1995-August 1997) developed pursuant to the 1995-1996 Privatisation Program. As mentioned above it consisted of continued privatization via NPBs for citizens of Moldova only and also of privatization via cash transactions for both locals and foreigners. The latter one involved a new mechanism for the cash sale of residual state-owned shares. The Residual Share Regulation determined that residual shares would be sold through the Moldova Stock Exchange. Of the 595 enterprises whose residual shares were offered in this manner, shares of 200 enterprises were sold (source: USAID, Report 2000). 'Despite this progress, results were somewhat below expectations. The remaining unsold shares remain unattractive at the prices set by Government of Moldova and represent repeat offerings of enterprises. Low demand reflected both the poor state of the enterprises offered for sale, and the lack of financial resources of the general population' (USAID, Report 2000).

A number of 2,235 enterprises have been totally or partially privatised, among them 1,142 large and mid-sized enterprises and 1,093 small enterprises, at 15 nation-wide auctions with subscription for shares, 94 traditional "open outcry" auctions and 11 public bids (according to National Agency for Attracting Investment, www.naai.moldova.md).

BISNIS Report on Moldova (1999) however provides a slightly different statistics saying that since the beginning of the privatization program, 1,393 small-scale enterprises were fully privatized through the bond program, primary privatization stage. Another 1,150 medium and large enterprises at least partially privatized.

The third 1997-1998 Privatisation Program has been prolonged pursuant to the Law of the Republic of Moldova as of December 23, 1998 which says: "…the effect of the Law on the 1997-1998 Privatisation Program is being prolonged until the enactment of the Law on the 1999-2000 Privatisation Program." This Program has marked the beginning of a new stage of the privatisation process which is characterized by the **privatisation of the public property for cash**, extended number of enterprises subject to privatisation, also by the diversification of the privatisation methods as well as by the direct linking the privatisation process to the capital market and restructuring of the privatised enterprises, attracting investments in economy.

Thus, it was exceptionally cash privatization, when foreign investors were welcomed to participate. However, the program also gave some privileges to local investors: citizens of Moldova could pay for a privatized asset (blocks of shares) in instalments (a 25% up front with fixed, quarterly payments for 3 years), whereas foreign investors had to pay the purchase price on the spot. `The program includes the sale of 510 entities from different economic sectors on a case-by-case basis. Another 28 enterprises, of the biggest interest to foreign investors, are to be privatized individually following parliamentary approval, and 65 entities are to be privatized as unfinished construction projects`(source: BISNIS Report, 1999).

According to U.S. Embassy Report (July 15, 2001) in 1999-2000, more than 360 enterprises were sold through auctions and international tenders. Total revenues generated from privatization in 2000 stood at ML 426 million (USD 34 million).

Results of the Third Privatization Program as of July 15, 2001: Privatization revenues have been relatively low due to unrealistic price expectations and the unwillingness of the Government to lose management control. In addition, since August 1998, the Russian monetary crisis has had a strong impact on Moldova. However, the Government has showed flexibility in establishing prices on the condition that serious investment commitments are to be made in the acquired company, and all its debts are to be assumed. As a result, 15 companies have been sold to foreign and local strategic investors, generating revenues of MDL 50 million (USD 4.37 million) and direct investment of MDL 87 million (USD 7.6 million), DM 82 million, and USD 57.5 million. Leading Western companies were involved in seven out of the 15 successful privatization programs (source: U.S. Embassy, July 15, 2001).

The same report suggests the most successful privatization in 1999-2000 was the sale of three (South, Central and Chisinau) out of five power distribution companies to the Spanish firm Union Fenosa for USD 25.3 million and investment commitments of approximately USD 70 million. Other successful privatizations by foreign investors include: cement producer Cement S.A. by France's Lafarge (a 52 percent stake); pharmaceuticals producer Farmaco S.A. by U.S.A.'s Europharm, Inc. (an 85 percent stake); leather processing company Piele S.A. by Italy's Esastampa (a 60 percent stake); clothing factory Balteanca by Germany's Steilmann Gruppe (a 65 percent stake); tour operator Moldova Tur S.A. by Israeli Avi-Waks Ltd. (over 80 percent stake) and oil retailer Tirex-Petrol by Germany's Mabanaft (over 80 percent stake).

As of mid 1999, as suggests U.S. Embassy in Moldova Report (July 15, 2001) an estimated 60 percent of the economy was in the private sector. Sixty percent of industries are private, with agriculture at 86 percent, retail sale and services 70 percent, and construction and transport almost 44 percent. The private sector employs almost 70 percent of all Moldovan workable population and accounts for over 63 percent of Moldova's GDP.

Prolonged Privatization Program 1997-1998: in March 2003, The Parliament has prolonged the term of the Privatization Program 1997-98, which term expired on December 31 2002, until December 31, 2005. According to Director General of the Privatization Department Nicolae Gumeennii, 482 objects are included into it from various spheres of the national economy (source: Interlic, March 05, 2003).

It is planned that the stocks of these enterprises will be offered for bidding, when the RM government approves the appropriate privatization schedule. It is expected that in 2003 the RM authorities will offer the stocks of the National telephone operator "Moldtelecom", several wineries, the Northern and the Northwestern Power Distribution networks, that is one of the main conditions of the IMF and World Bank for releasing tranches of the credits for Moldova (source: Interlic, March 05, 2003).

The privatization of the state telecommunication company "Moldtelecom" goes back to August 1999 and since then government coudln't attract the investor at a desired price. According to News Agency Interlic, the last attempt to privatize the Moldtelecom was made at the end of November 2002, when the government commission rejected a proposal by the Moscow City Telephone Network (MGTS), while it considered the amount at USD 20 million, offered by the Russian investor, too low. It was planned to announce a new tender in 2003.

However, in April 2003, the International Monetary Fund (IMF) has agreed to the Moldovan government's proposal to exclude the SC "Moldtelecom" from the Privatization Schedule for 2003. According to Advisor to the Premier for Relations with the International Financial Organizations Alexandr Cebotari, the IMF experts have expressed understanding that one should wait for the invigoration on the telecommunication market for a successful privatization of the Moldtelecom (source: Interlic, April 21, 2003).

Under the prolonged until the end of 2005 Privatization Program 1997-1998, in the end of Year 2003 an international investment tender on the privatization of the enterprises of the Power Sector has been announced in Moldova. As Interlic News agency reports, 75%+1 stock of the Northern (RED-Nord) and Northwestern (RED-Nord-Vest) Power Distribution Networks will be proposed for the sale at this tender. The deadline for submitting applications for the participation in this tender is February 9, 2004. Enterprises or associations of enterprises (holdings, consortiums), having experience in the field of the production and the sale of electric energy, where the number of consumers constitutes not less that 100 thousand and the volume of annual sales – not less than $100 million.

Spain's Union Fenosa bid USD 15 million for the two companies at the end of 1999, according to Interfax. However, the laws at the time banned all power distribution companies from being sold to one and the same bidder, though.

By February 09, 2004, according to Interfax, two Russian companies AES Silk Road and ZAO Inter RAO UES have submitted bids in an investment tender (find in Appendices an Investment Tender Note) for the sale of 75% plus one share in the Moldovan Power Distribution companies RED Nord and RED Nord-Vest. However, Interfax reports that on April 08, 2004, the Russian subdivision of the U.S. corporation AES has dropped out of a tender, leaving a subsidiary of Unified Energy Systems (UES) of Russia as the only bidder. Under Moldovan law, if only one company remains in a tender, the tender commission should begin direct negotiations for the sale of the assets.

In February 2004, the IMF considers that Moldova has to change the course of its economic policy in order to resume the talks with the world community on new cooperation programs. According to IMF experts progress in structural reforms remains slow. In particular, there has been no significant improvement in the business climate, while corruption remains widespread (Note: the low quality of governance is reflected in the spread of corruption, the incidence of which in Moldova puts the country amongst the 35 most corrupt countries in the world (Transparency International Annual Report 2003, www.transparency.org) with a score of Corruption Perceptions Index (CPI) of 2.4). Government interference in the private sector—including formal and informal restrictions on exports of scrap metal and some agriculture goods—casts doubt over the authorities' commitment to market-oriented reforms. While the privatization of some wineries has been completed, a number of large-scale privatizations have been postponed (source: Interlic, February 03, 2004). In fact, the story about privatization of 5 wineries (by september 2003 – 4, as two of them “Aroma” and “Valagrovin” merged following the amendment to the Privatization Program) and 7 tobacco companies goes back to Year 2000, when IMF put the privatization of these industries as the one of the major conditions for further crediting of the country.

Opinions on Privatization Methods

Igor Filatotchev and co-authors mentions in their recent study (2003) there has been a variation in PRIMARY privatization methods both within and across countries in Central and Eastern Europe, ranging from “give-away” privatizations through vouchers issued to the adult population to asset sales. The authors of this study also discuss four types of privatization such as Stuck or “give-away” Privatization, Privatization to domestic Institutions, Privatization buy-outs and Privatization to foreign investors.

“Give-away” privatizations have been used as the primary method privatization in Moldova, Russia and Georgia. The privatization of state-owned enterprises through insider “give-away” privatization programs has resulted in a general lack of working capital in firms since no new finance is introduced under this method of ownership transfer. The first type, Stuck privatization, is characterized by low managerial turnover, resistance to outside board directors, low learning and weak governance.

The give away nature of the distribution of equity may indicate that insiders (i.e., management and employees in the firm) have not made a significant investment in the firm to protect their investment, thus further encouraging shirking (Filatotchev, Wright & Buck, 1995). Consequently, restructuring of firms in Central and Eastern European transition economies may not only be constrained by the lack of effective governance mechanisms, but also by managerial unwillingness and/or lack of ability to undertake change (Mahoney, 1995).

In Central and Eastern European transition economies, incumbents in ‘‘give-away’’ privatizations have the power to prevent minority shareholders from outside the firm to obtain board seats or even accessing information. These outsiders may be domestic or foreign financial institutions or corporations. Where outsiders do have board representation, they may not be able to represent their interests due to possible insider domination of the board (Frydman, 1995). Unless a close relationship can be developed between the outside investor and management, outsiders may need to have majority stakes in order to obtain strong influence on the strategic direction of the enterprise (Wright, Buck, Filatotchev, 1998).

Conclusion here is that “Give-away” or Stuck privatizations are more likely to be associated with corporate governance that is less effective at generating corporate restructuring than are other forms of privatization (Filatotchev, 2003).

The study of Six Newly Independent States by Simeon Djankov reveals, that in all six countries, the changes in ownership structure between 1995 and 1997 increased insider (and in particular, managerial) ownership at the expense of state and outsider ownership.

Table: Changes in the ownership structure, % of total (Means). The shares are unweighted averages. State ownership includes property under local and municipal

administrations. Outside Local Investors include investment funds. (Source: Djankov, February 1999)

Country	Managers	Employees	The State	Outside Local Investors	Outside Foreign Investors	Individuals
1995	7.2	21.6	38.6	24.7	0.3	7.6
1997	18.3	19.7	23.8	22.6	2.1	13.5

In a study, based on enterprise survey data for 1995-97, the author Simeon Djankov (July 1999) comes to a conclusion that restructuring is more rapid in enterprises bought-out by their managers as compared to enterprises privatized through voucher (bonds) auctions where the control (direct or indirect) remains with their managers. He suggests that this may be due to the perception on the part of managers that ownership acquired through voucher (bonds) privatization is a windfall gain.

To conclude, I would call the primary privatization trough the National Patrimonial Bonds (NPBs) as a populist-social one and not economical, as it did not bring the real financial inflow into the privatized companies, did not facilitate the turnover to efficiently working owners or good corporate governance of enterprises, which in its turn had an extremely negative influence on the real sector dynamics, its exporting possibilities and the level of employment. That is why the stocks of the Moldovan companies are still far from being quoted or publicly traded at the foreign exchanges. Moreover, the Government of Moldova is not consistent in its decisions , which creates certain uncertainty among foreign investors. However the current stage of cash privatization brings into the economy of Moldova real investors, interested in the business to grow and in the adding value to its shareholders.

Formation of the securities market in any country is an extended and quite complicated process. Capital markets of most developed countries have been in existence for centuries, whereas the formation of securities markets is rather new to former socialist countries, such as Moldova.

The major impact for an organized capital market formation in Moldova was a large-scale economic reform and, in particular, mass privatization of state property. Legal framework for the privatization process in Moldova was laid on July 4, 1991 when the Parliament adopted the Law on Privatization and at the same time the Ministry of Privatization and State Property Management of Moldova was created. Its major responsibilities were about mass privatization of state property.

Undoubtedly, The Stock Exchange of Moldova (MOLDSE)[1] was a structure necessary for normal functioning of the capital market. The first trades at MOLDSE of June 26, 1995 were, actually, the first attempt to systematize the disorderly and unruly market.

It is worthy to mention, that MOLDSE was established in December 1994 as a non-for-profit, close joint-stock company by 34 founders – professional participants of the securities market, who became its shareholders (Table of MOLDSE founders with detailed description see in the Appendices). MOLDSE is located in a capital of Moldova – Chisinau at the following address: Blvd. Stefan cel Mare, 73, MD-2001. First transactions held on June 26, 1995, accepted as the birthday of the Stock Exchange of Moldova (MOLDSE). During summer 1994 the volume of the tenders did not exceed hundred thousand Moldovan Lei (MDL) in a month, by now this parameter far exceeds millions of MDL (more statistics see in Chapter 5).

Chronology of events

Since May 1995, MOLDSE is a member of the regional Federation of Euro-Asian Stock Exchanges (FEAS)[2], headquartered in Instanbul, Turkey (more on this topic in Chapter 6).

[1] http://www.moldse.md/
[2] http://www.feas.org/

In 1998, the MOLDSE established the National Depositary (ND), a non-commercial close company. ND is a professional participant of a securities market, which provides services in registration of the securities depositors' rights, clearing services and estimations of the transactions on the stock exchange.

In 1998, MOLDSE introduced a new trading system integrated with the depositary system which gave brought in much higher transparency and efficiency. The system implementation as well as the ND establishment became possible thanks to the U.S. Company PriceWaterhouse and U.S. Government Agency USAID[3]. Under assistance of these organizations, MOLDSE has acquired necessary up-to-date technologies to execute trades (more on that in Chapter 6).

Implemented trading system, which was had been developed individually for Moldova, and has conceptual resemblance to systems used in London, Paris, and Geneva, has some peculiarities:

1. The system is based on orders. Brokers can enter buy and sell orders into the system. The buy orders are matched with sell orders at market prices, which are calculated for each type of security separately. This order system allows investors to "define" the real value of securities and provides high transparency.

2. The system is automated. At present the Exchange has 56 working places for brokers. The system is capable to speedily and accurately define the market price of each type of security participating in trades and matches orders to conclude the deal. High efficiency and accuracy resulting from automation make investors more confident of the system, and besides, help speed up settlements on trades.

The trading system can also process deals concluded between two brokers. The system of reports for the Exchange and brokers has improved significantly, too.

System specification has a considerable value for investors, who can request their brokers to place two different types of orders to the order-match system, such as:

[3] http://usaid.gov/

1. Limit orders. The investor can request that his broker places an order in the system at a price with a buy- and sell limit. This type of order is known as limit order and gives investor control since limit order prices influence the calculation of market price.

2. Market orders. Investors have a possibility to place a market order through their broker. In this case, the investor consents to the market price of the day, which has already been calculated by the system. The investor can just mention the number of shares he wants to buy or sell.

Additionally, the Executives of Moldovan Stock Exchange claim that the multi-tier listing system, developed and put into effect by the MOLDSE, was introduced with some changes by the Prague Stock Exchange in five months after it had been introduced at the MOLDSE.

In 2000, the introduction of the SEM's new Regulations changed the auction mechanism in its quality terms. Also, the Regulations were essentially changed (more on that in Chapter 3), amendments in the auction technology made.

At the beginning of 2002, NCS introduced the CNVM-32 index into circulation, the official publication of which was launched since the June 26, 2000 (after five years of MOLDSE functioning). The index is calculated weekly following the Friday's MOLDSE trade session. Index CNVM-32, based on transactions of stocks of 32 moldovan companies, is the prototype of a world-known Dow Jones Index (more on this topic in Chapter 5).

Organizational Structure of MOLDSE

The supreme ruling body of the Stock Exchange of Moldova is the General Assembly of its Members. The management of the MOLDSE is performed by the Exchange Board in the periods between the Members' Assemblies. The Exchange Board consists of 16 persons, elected for a year.

Since 1997 to the present time, the President of MOLDSE is Mr. Corneliu Dodu. At present, the following departments and subdivisions constitute the MOLDSE structure:

1. Marketing, Listing and Quotation Department. It is engaged in registering securities at the Exchange, in examining and including securities in the Exchange listing. The Department pays a special attention to the following objectives: the shareholders' policy, securities and dividends policy. A special role of the Exchange is its role as an information source. In the monthly bulletin "Bursa de Valori a Moldovei" (the Stock Exchange of Moldova), the Department publishes information on securities admitted to circulation at the Stock Exchange, presents statistics and auction analysis, as well as other information. All information regarding information on exchange transaction statistics is the property of the MOLDSE;

2. Clearing and Billing Department. Clearing refers to the actions as to collect, check, correct and confirm the information on transactions for settlement, on document preparation to effect transactions, as well as information regarding off-set of mutual liabilities of the Stock Exchange's Members;

3. Market Supervision Department – performs the following functions:

- observance of the normality and requirements of the legislation in the Stock Exchange's activity;
- supervision – the department carries out constant control over the activity of the MOLDSE's Members and over the activity with securities as to guarantee the proper behavior of the Members on the securities market, to maintain their high professional level and to avoid various manipulations on the market;
- settlement of legal matters;

4. Electronic System Department. The Department's functions are to control and maintain the electronic system as to effect transactions at the Stock Exchange.

Securities Circulation at the MOLDSE

The following securities are allowed to be traded on MOLDSE:

- securities (with the exception of shares of mutual and interval investment funds), the public offering of which was registered in accordance with the current legislation;
- state securities;
- other securities and financial instruments in accordance with the legislation.

The Exchange has the right to register securities, having no restriction on their free circulation. The list of the corporate securities, circulating at the Exchange, is divided into two subdivisions:

- securities included in one of the listing levels (there are three levels of the listing);
- securities registered at the Stock (non-listing) and divided into two sectors (primary and secondary) according to the issuer's correspondence to the particular qualification requirements.

Corporate Governance of Securities Market in Moldova

The major Regulatory Body of Moldovan securities market is National Committee on Securities (NCS), an independent government agency of the ministerial level. "NCS is a public administration body, undertaking, regulating, supervision, monitoring the capital market and activity of its participants. It is entitled to take decisions, grant benefits, interfere, monitor, ban, impose administrative and disciplinary penalties pursuant to the legislation."[4]

Its central function is to ensure a securities market transparency. I see NCS acting as a monitor and intermediary, receiving information from companies, and then distributing it to the public. Currently, NCS exercises supervision over 102 professional participants of the MOLDSE and 1108 listed companies.

NCS consists of 5 members, including the Chairman and the Deputy Chairman and includes 7 Departments with 70 persons:

1. Department of supervision, control and investigation;
2. Department of license and placements' regulations;
3. Department of monitoring, economy and finance;
4. Department of market policy's elaboration and promotion;
5. Department of international cooperation and integration;
6. Public relations Department;
7. Administrative Department.

[4] Extract from Law on National Committee on Securities (approved by Parliament of Moldova, No.192-XIV of November 12th, 1998)

Due to rather short activity on the securities market or to any other reason, National Committee on Securities of Moldova is still not a member of The International Organization of Securities Commissions (IOSCO), which accounts to 181 members worldwide. Moreover, the IOSCO's members regulate more than 90% of the world's securities markets (more on that in Chapter 6).

The Stock Exchange market relies on safe legislation developed on the basis of international standards which regulate securities transactions, investment fund and broker-dealer activities and regulatory role of the National Committee on Securities (more on this topic in Chapter 3).

The major Laws concerning MOLDSE are

- Law on Securities Market (approved by Parliament of Moldova, No.199-XIV of November 18th, 1998);
- Regulations of Stock Exchange of Moldova (approved by National Committee on Securities, No.17/5 of May 19th, 2000);
- Statut of MOLDSE.

Listing Standards

At present, there are 1108 listed companies of Moldova at the MOLDSE (more statistics will be provided in Chapter 5).

Requirements for all three levels of listings are gathered in a Table below, which was found at a FEAS web-site: http://www.feas.org/Member.cfm?MemberID=17#contact

Table 2. Minimum Listing Requirements

	First Market (Level 1)	First Market (Level 2)	First Market (Level 3)	Second Market
Minimum Paid-In Capital	N/A	N/A	N/A	N/A
Years of Business Activity	3	2 Years	1 year	N/A
Capitalization of Issue	MDL 10 million*	MDL 5 million*	N/A	N/A
Free Float	N/A	N/A	N/A	N/A
Free Float Ratio	N/A	N/A	N/A	N/A
Minimum # of Shareholders	More than 50	more than 50	More than 50	More than 50
Minimum Years of Positive Financial Results	2	N/A	N/A	N/A
# Prior Years Audited Financial Accounts	N/A	N/A	N/A	N/A
# Times Dividends Distributed in Last 3 Years	N/A	N/A	N/A	N/A
Whole Class of Securities to be Issued	N/A	N/A	N/A	N/A
Listing Agreement with Central Depository	N/A	N/A	N/A	N/A
Prospectus	Yes	Yes	Yes	Yes
Special Requirements	Registered in the NSC equity of JSC, audited statement, IAS used	Registered in the NSC equity of JSC, audited statement, IAS used	Registered in the NSC equity of JSC, audited statement, IAS used	Registered in the NSC equity of JSC, audited statement, IAS used

* Note: At March 16th, 2004 exchange rate of MDL 1 = USD 0.0794

I would mention here that listing requirements are quite high for an average company in Moldova. Three years of not just business, but profitable activity and MDL 10 million of market capitalization, are quite tough requirements.

Legislation of the Republic of Moldova has established formal criteria to classify a person as a shareholder. Such person shall become a shareholder of the moment of acquisition of title to hold one or more shares of the company. The title to registered securities shall be transferred to a buyer:

- at the moment of entering of respective information into a register of holders of the company's securities or into records of a nominal securities holder pursuant to order established by applicable legislation;
- at the moment of issuing of securities certificate to a shareholder after making an appropriate record in his personal registration account maintained in the register (in case of registration of securities in the register);
- at the moment of making of records in his personal registration account maintained in the register after issuing respective securities certificate to a nominal holder, whose client is a buyer (in case of registration of securities with a nominal holder).

Further I will present a short overview of the Laws related to the functioning of the legal entities in Moldova and those which are linked to theirs' activity at the securities market of Moldova.

- **Law on Joint Stock Companies** (approved by Parliament of Moldova, No.1134-XIII of April 02, 1997) provides legal, organizational and economic basis for establishing, functioning and liquidating of join stock companies in Moldova.

As the MOLDSE is a closed joint stock company, certain relevant articles from the Law are quoted further on.

Article 2, Clause 5 A joint stock company is a closed type, if its shareholders or a company itself have the priority right to purchase the shares alienated by shareholders of this company. A closed joint stock company has no right of a public placement of the stocks and other securities or otherwise, does not have the right of sale of its shares to the unlimited number of persons.

Article 2, Clause 6 The number of shareholders of the closed joint stock company, including the shareholders submitted as the nominal stock holders, should not exceed 50, except for the cases stipulated by the present Law or other Regulations.

Article 24, Clause 3 Shareholders bear responsibility for the obligations of the joint stock company to the extent of the value of their stocks.

Article 40, Clause 2 The Authorized Capital of an open joint stock company should be not less than MDL 20 thousand (Note: about USD 1,594), while of a closed - not less than MDL 10 thousand (Note: about USD 797).

Article 44, Clause 4 The closed joint stock company has the right to carry out private placement of stocks of additional issue within the limited circle of persons, list of which is authorized by the majority of shareholders, in the order, stipulated by the Company's Statute.

Furthermore, as the legislation distinguishes between open and close joint stock companies, the Table 3 is given below for the simplicity of a comparison.

Table 3. The main differences between open and closed joint stock companies

	Open Joint Stock Companies	**Closed Joint Stock Companies**
Number of shareholders	No limit[5]	Maximum of 50[6]
Minimum Authorised Capital	MDL 20 thousand[7] (Note: about USD 1,594)	MDL 10 thousand[3] (Note: about USD 797).
Issuance of shares	Public placement[8]	No public placement.[9] Can distribute its shares only among founders or other pre-determined groups of persons.

[5] Law of Republic of Moldova on Joint-Stock Companies, No.1134-XIII of April 02, 1997, Art. 2, Clause 4
[6] Law of Republic of Moldova on Joint-Stock Companies, No.1134-XIII of April 02,1997, Art. 2, Clause 6
[7] Law of Republic of Moldova on Joint-Stock Companies, No.1134-XIII of April 02,1997, Art.40, Clause 2
[8] Law of Republic of Moldova on Joint-Stock Companies, No.1134-XIII of April 02,1997, Art.2, Clause 3
[9] Law of Republic of Moldova on Joint-Stock Companies, No.1134-XIII of April 02,1997, Art.2, Clause 5

Each joint stock company is obliged to annually submit activity reports to the NCS. Based on the analysis of such reports the NCS shall determine whether the respective company complies with the provisions of the Law on Joint Stock Companies, including the provisions on protection of shareholders rights.

Article 28 of the Law on Joint Stock Companies provides the right for a judicial redress in a rather general way, stating that "for protection of their rights and lawful interests shareholders may address … the court", and does not set any specific procedure, so that the general rules of procedure apply. The general rules of procedure however are established in the Moldovan Code of Civil Procedure.

The Law on Joint Stock Companies provides the possibility to address to the Governing Body of the company or to the National Committee on Securities in order to settle the dispute.

- **Law on Investment Funds** (approved by Parliament of Moldova, No.1204-XIII of June 05, 1997) defines the order of creation, activity and reorganization of investment funds – professional participants of securities market. Present law covers all investment funds, including privatization investment funds created in Republic of Moldova, except if other acts do not stipulate differently.

- **Regulations of National Depositary of Moldova** (approved by National Committee on Securities as of February 20, 1998) stipulates the activity of the professional participant of a securities market, which provides services in registration of the securities depositors' rights, clearing services and estimations of the transactions on the stock exchange.

- **Law on National Committee on Securities** (approved by Parliament of Moldova, No.192-XIV of November 12, 1998) defines the rights and responsibilities of the National Committee on Securities - the organization of public management, which carries out regulation, supervision and control over the securities market, and activity of its participants. Committee has the right to take proper decisions, to give privileges, to carry out intervention and control, to put a veto and to impose disciplinary and administrative penalties according to the legislation.

- **Law on Securities Market** (approved by Parliament of Moldova, No.199-XIV of November 18, 1998) defines conditions and the order of stocks' issue and their negotiability, principles of organization and activity of professional participants of securities market and stock exchange.

  Professional participants of securities market are:

  - ✓ brokers,
  - ✓ dealers,
  - ✓ underwriters,
  - ✓ investment funds,
  - ✓ registry holders,
  - ✓ depositary,
  - ✓ clearing companies.

  Chapter 8 of this Law is devoted particularly to a Stock Exchange and sets the authorized capital adequacy standards at the level of MDL 500 thousand (Note: about USD 39,683). The equity capital adequacy norms, i.e. one million lei, and guaranty fund adequacy norms, i.e. 30 % of the authorized capital, which were set by the legislation, are observed at present.

  Law on securities market foresees an obligation of publicly traded Joint Stock companies to disclose the information about their securities and their financial economic activity by means of publication and presentation to NCS (Chapter 11 "Disclosure of Information" of the Law on Securities Market):

  a) Annual report on securities (published in the press and presented to NCS not later than March 15 next to the current year);

  b) Information related to the financial-economic activity of the Joint Stock companies (published in accordance with the Joint Stock company Statute);

  c) Prospectus of public offer;

  d) Report on results of public securities issue.

  Securities market professional participants have to disclose the information about transactions with the securities in the following cases:

  a) Performing within one quarter several transactions subject of which were the securities of the same class, issued by one issuer, if the number of securities under mentioned transactions was up to 100% from the total;

b) Performing the single transaction subject of which were the securities of the same class, issued by one issuer, if the number of securities under mentioned transaction amounted to not less than 5 % from the total.

- **Regulations of Stock Exchange of Moldova** (approved by National Committee on Securities, No.17/5 of May 19, 2000)

- **Regulations On broker and dealer activity at securities market** (approved by National Committee on Securities No. 48/7 as of December 17, 2002)

By decision of the NCS, as of November 6th 2003, professional participants of securities market are obliged to publish information which can be accessed by the public in the specialist newspaper "Capital market" (established in October 2003).

In connection with the protection of shareholders' rights, I would also mention the following Laws:

- Law on Privatization (approved by the Parliament of Moldova, No. 627 - XII of July 04, 1991);
- Law on Foreign Investments (approved by the Parliament of Moldova, No. 998 - XII of April 01, 1992);
- Law on Insurance (approved by the Parliament of Moldova, No. 1508 - XII of June 15, 1993);
- Law on Financial Institutions (approved by the Parliament of Moldova, No. 550 - XIII of July 21, 1995).

Corporate Governance of Joint Stock Companies

First of all, Moldova follows Principles of Corporate Governance, approved in 1999 by Organisation for Economic Co-operation and Development (OECD). The Principles are attached in Appendices or can also be found, following the link http://www.oecd.org/dataoecd/47/50/4347646.pdf

Secondly, in October 2000 The Eurasian Corporate Governance Roundtable was established in response to the growing awareness among policymakers and donors in the region regarding the importance of corporate governance. The Eurasian Corporate Governance Roundtable assists selected countries

(Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Ukraine and Uzbekistan) in developing public policy responses, using the OECD Corporate Governance Principles as a conceptual framework.

So far there were four Eurasian Roundtable meetings, where Moldova took part as well:
1) The First meeting of the Eurasian Roundtable: Kyiv, Ukraine, 19-20 October 2000 - Corporate Governance Overview
2) The Second meeting of the Eurasian Roundtable: Tbilisi, Georgia 7-8 June 2001 - Transparency and Disclosure
3) The Third meeting of the Eurasian Roundtable, Kyiv, Ukraine 17-18 April 2002 - Shareholders Rights and Equitable Treatment
4) The Fourth meeting of the Eurasian Roundtable, Bishkek, Kyrgyzstan, 29-30 October 2003

The Fifth Eurasian Roundtable will take place on 17-18 May 2004, in Kyiv, Ukraine and will be devoted as always to a Corporate Governance in Eurasia.

Furthermore I will discuss the Corporate Governance framework for Joint-Stock Companies. For that I will use the surveys of Moldova, prepared by participants – country representatives of OECD's Eurasian Corporate Governance Round tables.

Based on the provisions of Moldovan legislation, the term "**director**" may be defined as the person with the administrative powers in an organisation, enterprise, company, who is temporarily or permanently granted (either through appointment or election) certain rights and obligations related to the exercise of administrative or organisational and economic powers. The legislation does not provide for an exclusive list of administrative powers within a company. The only reference to that effect is made in the Law on Joint Stock Companies, whereby the following persons have administrative powers within a joint stock company: members of the Board of Directors, members of the executive body, members of the Audit Committee, members of the Liquidation Committee, as well as other persons exercising administrative powers.

The regulatory framework provides positive qualifications only for directors of commercial banks, who shall meet the following requirements:

1. have impeccable business reputation;
2. have a higher education degree;
3. working experience in administrative positions in economic or financial field.

Special requirements are set for certain categories of bank directors. Thus:
1. members of the Audit Committee shall have working experience in the field of accounting and control, shall know accounting in banks, legislation of the Republic of Moldova and regulations of the National Bank of Moldova;
2. Chairman, Vice-Chairman and members of the executive body shall hold a higher education degree in the financial-economic field and at least 5 years of working experience in the banking sector;
3. Chief Accountant shall hold a higher education degree in the financial-economic field, at least 3 years if working and shall be able to execute financial and other reports for the National Bank of Moldova.

Legislation does not provide for any other positive qualifications for directors of other types of companies.

The required **Board** Structure of joint stock companies (including banks, investment funds) is as follows:
1. Board of Directors;
2. Executive Body;
3. Audit Committee.
The Board of Directors may not be formed of less than 3 members with a company of less than 50 shareholders and not less than 5 members in case of joint stock companies with 50 and more shareholders, of which one shall be appointed President of the Board. The minimum number of Board members in an investment fund shall not be less than 5. Pursuant to the law on joint stock companies, Board members shall be elected for a one-year term. Chairman of the Board may not serve as the head of the executive body. The Board of Directors is subordinated to the General Meeting of Shareholders.

Law on Joint Stock Companies prescribes dual board structure consisting of a Board of Directors as well as an executive body, except that joint stock companies with less than 50 shareholders may avoid the need of forming a Board of Directors (in such cases the powers that would otherwise be attributable to the Board will be carried out by the general meeting of shareholders). Limited liability companies shall have an

Administrative Committee, which shall exercise the supervisory and administrative powers. In case if a limited liability company has a small number of shareholders, the existence of Administrative Committee is not necessary: In this case there will be only a manager.

Since dual board structure is compulsory only for Joint Stock Companies with 50 and more shareholders, smaller joint stock companies and limited liability companies prefer to avoid the need for Board of Directors, as usually same people are meeting in the general meeting of shareholders and in the Board of Directors.

Audit Committee is not included in the Board, but rather a separate controlling body of a joint stock company, subordinated to the General Meeting of Shareholders. Audit Committee shall consist of an uneven number of members elected or appointed by the General Meeting. Members of the Audit Committee may not be members of the Board, executive body or accountants of the company.

The limit as to how many boards an individual can be represented on is that one person may serve on five Boards of the joint stock companies registered in the Republic of Moldova. Also, one person cannot serve on the Board of more than one Moldovan commercial bank. There is also another restriction applicable to joint stock companies with participation of state's capital. Representative of the state may serve on the Board of only one company.

The importance of the Board in corporate governance is expressed by ensuring of a balance of interests and creating of conditions for proper operation of the company. This mechanism should guarantee and observe the following interests:

1. Interests of shareholders who invested financial funds in the creation and operation of the company;
2. Interests of the company to develop an effective economic capacity, which would result in increase of the company's assets and the company's role on the market;
3. State's interests and interests of the society as a whole, so that the operation of the company would comply with such interests and applicable legal provisions.

At the same time, the administrative and supervisory bodies shall ensure fulfilment by the company of its obligations before the state, such as, financial obligations etc.

Even though the role of the Board in corporate governance is properly appreciated, there is no official systematisation in the Republic of Moldova, which would allow for a general opinion on organisation and functioning of Boards. In the majority of cases, the rules regarding creation of Boards, determination of their powers in the constitutive documents and internal regulations are observed and fully put into practice. At the same time there are many cases when same people who vote in general meetings are decision makers in Board meetings, which makes the Board just another form of decision-making by the shareholders, which otherwise could be done through a general meeting.

As a rule, the Board's activity is intended to fulfil the decisions of the General Meeting of Shareholders. The Board shall submit activity reports at the end of each financial year. In the majority of the cases the Board activates in a transparent manner. However, especially in the case open joint stock companies with hundreds and thousands of shareholders, the Board in cooperation with the executive management often succeeds in ignoring the rights of many small holders. The activity of the Board shall be transparent not only for shareholders. Pursuant to the Law on Joint Stock Companies, each joint stock company shall submit annual reports to the National Committee on Securities, including activity reports of the Board. In accordance with the information published by the NCS, failure by joint stock companies to timely submit all necessary reports is the most common violation.

The Boards are often nominated and elected by the controlling shareholders. However, sometimes, when necessary to show transparency, representatives of the employees or small shareholders are also being elected. But, as the latter ones are the minority shareholders, they cannot influence the final decision when voting.

It can be said that in Moldova there are 2 major kinds of ownership structure:

- publicly traded companies, with widely dispersed shareholdings, and;
- closely held companies with a controlling shareholder and a minority of outside shareholders.

The first type appeared out of the mass privatization program undertaken in 1993-1996, while the second resulted from privatization through investment tenders beginning in 1998.

According to the Law on Securities Market, professional participants of securities market are:

- ✓ brokers,
- ✓ dealers,
- ✓ underwriters,
- ✓ investment funds,
- ✓ registry holders,
- ✓ depositary,
- ✓ clearing companies.

In Year 1997, there were 133 professional participants of the securities market, including 50 broker-dealers, 30 independent registrars, 42 investment funds and 11 trust companies at Moldova Stock Exchange. By the beginning of the Year 2003, there were already 102 professional participants of the securities market. This number continues to fall due to the recent legislation changes with regards to Investment Funds, which I will discuss in this Chapter.

An **investment fund** may be organised in Moldova in one of the following forms:

- Mutual fund
- Interval fund
- Non-mutual fund.

A mutual fund constantly issues stock with the obligation to repurchase it at the shareholder's request which can be made at any time.

An interval fund constantly issues stock with the obligation to repurchase it at the shareholder's request which can be made only within the intervals stated in the fund's charter and share emission prospectus but not less than twice a year in equal periods of time.

Non-mutual funds issue stock as necessary and without the obligation to repurchase it.

Investment funds and trust companies are considered as the most powerful and influential corporate groups, as they have been established already in the years of privatizations.

"All measures taken by the NCS were to increase the investment funds' own capital in order to consolidate their financial position, to optimize expenditures and structures of portfolios, but not to liquidate them. However, the adoption of these measures resulted in reorganization by means of amalgamation and liquidation of funds. As you can see the market itself determines the optimal number of participants, which is now 14 for investment funds", says in his interview President of the National Committee on Securities Mr. Ion Robu as of February 14, 2003.

By the beginning of Year 2003, one can say about rather high level of capital concentration in Moldova. Statistics suggests (Source: Corporate Governance Concept of the National Economy Enterprises, January 16, 2003) that:

- 1,884 functioning Joint Stock Companies have the shareholders owning more than 50% of stocks;
- 1,223 – between 25 % and 50 %;
- all the rest, including mentioned above (no stat. data) have the shareholders less than 25%.

As claimed by the Government in its ratified in January 2003 Corporate Governance Concept of the National Economy Enterprises "the concentration of the share capital was substantially affected by investment funds" which "are not interested neither in sale of controlling interest, nor in attraction of investments by additional issues".

The reasons of why Investment funds influence so badly the national economy were set as follows (Andrey Chegarovsky, January 31, 2003):

- fear of losing the control over the joint-stock company;
- low investment appeal of the enterprises burdened with creditor debts;
- incompetence of managers of Investment Funds and Corporate governors of Joint Stock Companies;
- imperfection of legislative and normative base.

The last point brings to a question of whether imperfection of laws prevents funds to work productively or does not allow liquidating those funds. Among the measures on improvement of legislative base there is such a note: "transformation of non-mutual investment funds, at their choice and within defined time frame,

into holdings or mutual investment funds and also toughening of restrictions on investment diversification of mutual funds."

Furthermore, in the text of the Concept there is a statement, that the improvement of legislative base should mean also "encouragement of activity of commercial banks as representatives of minor shareholders on general meetings for protection of their interests."

Transformation of funds into holdings is supported by some of the Investment Funds (e.g. Daac-Hermes non-mutual fund, which has in its portfolio Daac-Hermes J.V. - an official importer of Skoda, Renault, Citroen, Nissan and Dacia cars): any of existing funds could be divided, a part of actives with controlling interest - are allocated into holding, another part – into a mutual investment fund.

Among "the toughened restrictions" there was also an interdiction of possession of share holdings less than 35 %. Only in such a way Government expects mutual funds to be liquid and interested in the management of its assets.

In June 2003, NCS approved the changes into the Law in Investment Funds, stipulating that by the end of Year 2003 at least 10% of Fund's portfolio should be in the form of either bank deposits or state securities. By the end of Year 2004 such proportion of "other investments" should be up to 20% and by the end of Year 2005 – by 40%. Such a decision is not clear, as to Investment Funds it is almost like becoming a pure bank client, by holding 40% of the funds there.

"Currently, NCS is working over the new redaction of Law in Investment Funds with further amendments and also on the new Law on Holdings. It is stated by NCS that reorganization of funds cannot be done through their mergers" (Andrey Chegarovsky, October 03, 2003).

After new amendments, the running **14 Investment Funds** (out 42 – privatization born ones) have started last year to actively buy out the shares of the targeted joint stock companies to reach controlling interests. Such activity was promoted by the Government, which it its Concept of Funds' reorganization, granted them a right of purchasing the stocks from the shareholders at a price not lower then 50% of the nominal.

The reorganization process of Investment Funds should be over by January, 1, 2005. During the general meetings of shareholders funds will have to decide into what structure to be reorganized. I can see the turning point in the summer-autumn 2004 when reorganization - an active exchange and the buying of the stocks from the shareholders, a re-registration, sale of a part of assets, final formation of holdings. However, it is impossible even to assume, what kind of obstacles can appear on the way at today's investment funds' managers.

Investment Funds claim, that the process of exchange (into Fund's bonds) and the buying out of the stocks from thousands minor shareholders (mostly having the stocks as the result of privatization of the state enterprises) can take up to two years. It's not decided yet, how the stock price will be defined and by whom.

In my opinion, local Investment Funds of Moldova should be in fact named Asset Managment Funds, as they never invested any financial capital into the companies, instead they became co-owners of the companies as a result of a mass privatization for vouchers (bonds). One reason that an efficient capital market failed to develop is the lack of institutional framework. I still believe, that Investment funds have all the potential to play an intermediating role in the development of new capital market, but many have become so far holding companies rather than actively engaging in portfolio investment. Thus, many companies remained under-supplied by capital and regard Moldovan funds as assets managers, but not financiers.

Therefore, the government is taking now the urgent measures for the improvement of the situation on the securities market by the re-organization or the liquidation of inefficient investment funds. As Interlic News agency reports, Moldovan Premier Vasile Tarlev has declared, that the absolute majority of investment funds of Moldova do not take any measures for obtaining sufficient means to invest them into the development of the enterprises, which stocks they have. According to him, the number of stockholders, who placed their vouchers in the investment funds constitute 1.6 million.

The published in February 2003 Regulations "**On broker and dealer activity on securities market**" (approved by National Committee on Securities as of December 17, 2002) got a lot of negative comments

by this category of professional participants of the market. After seven years of "Temporary" Regulations, these New approved rules sound too "westernized" and almost blindly copied.

It is worthy mentioning that even with Temporary regulations, there was no any loud scandal related to brokers, although there were an intense competition and some misunderstandings with supervising body. Perhaps, from all professional participants of the market, the brokers' and dealers' reputation for last hot six-seven years has suffered less than others. However, NCS issued a very detailed document, which considerably scrutinizes the activity of the mentioned market makers.

All sense of this rather sophisticated document could be expressed only by one of its sentences: "the broker is obliged to fulfil the responsibilities on the concluded with the clients the contracts on broker service, operating honesty and exclusively in interests of clients" (Chapter 4, P. 5).

"Because of further complicated client contracts, containing numerous normative requirements, clients rather frequently refuse to sign contracts with brokers. Many clients, wishing to buy or sell the stocks, after acquaintance with the contracts are confused and as change their mind to sign a contract because of the too bureaucratic procedure", says the broker of the "Daac Invest" in his interview to "Logos-Press" (Oleg Gushin, April 11, 2003).

One positive moment I see as that the document regulates broker's activity not only with stocks, but also with other market instruments, such as bonds. In this attempt there is a common sense: to involve into manufacture of the goods and services the money of the population, by reducing a huge share of a bank sector.

Having the transformation from state to a private ownership in place, a well-functioning stock market was essential to support this process of transition. Moldova - a transition economy country has established a formal stock market in line with 20 of 26 transition economies in the past 10 years (Claessens, Djankov & Klingebiel, 2000). Yet many of these markets are undeveloped or dormant.

According to the same source, even the most developed markets in Central Europe are small where market capitalization does not exceed USD 15 billion in the Czech Republic, Hungary or Poland. Among the members of the Commonwealth of Independent States (CIS), with the exception of Russia, market capitalization is less than USD 1 billion. As a share of GDP, market capitalization matches levels in other emerging markets only in Estonia and Hungary. And there is little trading activity in most transition economy stock markets, with value traded as a share of market capitalization averaging less than 30 percent.

Major economic indicators for Moldova for the Years 1992-2002 are presented in a Table below.

Table 4. Major economic indicators, Years 1992-2002, Moldova (Source: WNISEF, www.wnisefk.com)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Real GDP Growth, %	-29.0	-1.2	-30.9	-1.4	-5.9	1.6	-6.5	-3.4	2.1	6.1	7.2
Nominal GDP, USD bn	0.47	1.11	1.16	1.44	1.69	1.93	1.70	1.17	1,11	1,48	1,62
Nominal GDP Per Capita, USD	107	255	266	400	471	528	465	321	354	408	449
Average Inflation, %	1.2	1.3	587	30.0	23.5	11.9	7.7	39.3	31.2	9.7	5.2
Exchange Rate, MDL / USD	0.41	1.64	4.09	4.50	4.60	4.62	5.37	10.52	12.43	12.87	13.57
Current Account Balance, USD bn	0.0	-0.16	-0.09	-0.12	-0.19	-0.28	-0.32	-0.03	-0.12	-0.12	-0.26
Current Account Balance, % of GDP	0.0	-14.4	-7.9	-8.0	-11.3	-14.2	-19.1	-2.9	-9.4	-8.0	-16.05
Foreign Debt Stock, USD bn	0.04	0.29	0.51	0.66	0.77	1.00	1.00	0.93	1.00	0.93	1.3
Foreign Debt, % of GDP	8.5	26.1	43.5	45.7	46.0	52.0	59.4	79.8	77.4	62.8	80.2
Unemployment	0.1	1.0	1.5	1.4	1.5	1.5	1.9	2.1	2.1	2.0	2.0
FDI Stock (USD bn)	N/A	N/A	0.03	0.09	0.12	0.19	0.26	0.32	0.46	0.62	0.72

Three variables, reflecting the development of Stock Exchange are as follows:

- Market capitalization of listed companies over gross domestic product (GDP);
- Value traded over gross domestic product (GDP);
- Value traded over market capitalization (also known as turnover ratio);

Market capitalization-to-GDP

Of the 20 stock markets in transition economies, only 3 – Czech Republic, Estonia, and Hungary – have capitalization-to-GDP ratios comparable to those of other emerging markets.

Market capitalization is very low in CIS countries, with the exception of Russia. Market capitalization in transition economies is significantly lower than in comparable emerging market economies.

In Year 2000, according to the data presented at the web-site of FEAS organization (www.feas.org) market capitalization of listed companies was USD 392 million, which amounted to 35.3% of GDP, in Year 2003 although this indicator went down to 31.2%. However, the ratio of market capitalization to GDP is slowly increasing over the last three years. This increase in market capitalization reflects both generally higher prices for existing stocks as well as increased number of listings (from 985 to 1196 companies or by 21%).

Value traded-to-GDP

Value traded as a ratio to GDP has experienced downfall with the further coming back to 2.1% figure. It is a fact, that Moldova, as a low-income country, has much lower ratios of value traded to GDP than high-income countries do. Average "value traded to GDP" ratio in Eastern Europe was 4% in Year 2000 (Claessens, Klingebiel and Schumkler).

Market turnover

Market turnover, defined as the value of trading over market capitalization, is an important indicator for measuring the effect of stock markets on growth (Levine and Zervos, 1998).

Overall, markets in transition economies are less liquid than their comparators in both developed and other emerging markets. In Moldova, turnover ratio is only 6.8% in Year 2003, which very low

Table 5. Major variables on Stock Exchange Development, Years 2000-2004 (Source: FEAS, www.feas.org)

	2000	**2001**	**2002**	**2003**	**up to 03.2004**
Nominal GDP, USD bn	1,11	1,48	1,62	1,63	
Number of Listed Companies	974	985	997	1196	1108
Market Capitalization, USD million	392	350	392	508	556,05
Total Value traded, USD million	23,2	21,4	18,6	34,5	1,0669
Market capitalization / GDP, %	**35,3**	**23,6**	**24,2**	**31,2**	**-**
Value traded / GDP, %	**2,1**	**1,4**	**1,1**	**2,1**	**-**
Turnover ratio (Value traded / Market cap.), %	**5,9**	**6,1**	**4,7**	**6,8**	**-**

CNVM-32 Index

At the beginning of 2002, NCS introduced the CNVM-32 index into circulation, the official publication of which was launched since the June 26, 2000 (after five years of MOLDSE functioning).

The index is calculated weekly following the close of Friday's MOLDSE trade session.

Components of Index

Index CNVM-32, based on transactions of stocks of 32 moldovan companies, is the prototype of a world-known Dow Jones Index. By definition, CNVM-32 reflects the pool of stocks it is derived from.

Calculation of Index

The technique of calculation of CNVM-32 is simple, despite of apparent complexity of the general formula. It represents the current capitalization of stocks of 32 issuers (calculated as an average of its stock prices during a week), divided on the basis value of capitalization (as of January 1, XXXX) and multiplied by 100 %.

Therefore, CNVM-32 index likewise other worlds indices, is price-weighted, meaning that each stock's weighting in the index is strictly determined by its current price.

Review of Index

The index CNVM-32's portfolio was reviewed two times a year by National Committee on Securities (NCS) until September 2002, when NCS decided to change the revise period to once a year. Following a review, illiquid stocks are replaced by most liquid ones. Illiquid stock is considered the stock which was not traded more than half a year. The index therefore is adjusted immediately after a change in the pool of stocks. The new components are included in the index at the opening of the first trading session of the next half-year.

The only significant difference between CNVM-32 and it's prototype "Dow Jones" is that the latter one includes "Blue Chips" stocks (definition by http://moneycentral.msn.com: Generally refers to stocks of large, established companies that are considered less risky than most), which are trading each day and indeed reflect the tendencies on the stock markets. In Moldova, however, there are not yet issuers, whose stocks

would be traded at least weekly. Thet's why NCS decided to exclude the issuer, if his stocks are not traded more than half a year.

CNVM-32 value

The base value of the Index is 100. Its dynamics over the last years can be found on the web-site of the electronical magazine Infomarket.md, rubric "Stock Exchange market".

The structure of the CNVM-32 portfolio almost reflects the structure of the GDP of Moldova: 57.55% of enterprises, included in the index, belong to the food and drink production; 19.42% - to the light industry; 15.85% - to the heavy industry; 7.18% - to the service industries.

Therefore, a potential investor can think of finding this index as handy while making a business decision. However, watching only the dynamics of Index does not always provide a really true picture. Obviously, it expresses a certain tendency on the stock market, but the MOLDSE activity is too low for the index to really be a guiding line for financial planning and other investing activities.

There are no yet any OTC derivatives market (e.g. forwards, options) in place, instead just a pure ownership change as the result of stocks' trading. Only when the Stock Exchange activity will substantially grow together with essential restrictions of the off-exchange market activity, then one can say about the utility of the stock index in Moldova. However, at the present time, the situation with CNVM-32 is such that any fluctuations will show some tendencies if not on the market then in respect of certain issuers.

The method of it's calculation has a lot of flaws, including the one when the transaction with the stocks of the company – component of the Index – can significantly influence on the Index itself and bring to a considerable change in it, although it won't represent the real change in economical situation in the country.

Trade activity at Stock Exchange

After a steep decline of the Sales volume in 2001 to MDL 607.4 million (almost by MDL 400 million in comparison to Year 2000), the Year 2003 stock market improved its positions and reached MDL 826 million (in Year 2002 – MDL 647.4 million). Out of MDL 826 million: MDL 480.3 million were traded through Stock

Exchange (see the Table 6 below) and MDL 345.7 million through the Over-the-Counter market. The net increase of the Sales volume amounted to 90.1% in the Year 2003 compare to the Year 2002.

Table 6. Moldova Stock Exchange Trades (Years 2000-2003)

	2003		2002		2001		2000	
	in MDL	in USD (MDL / USD annual average rate 13.94)	in MDL	in USD (MDL / USD annual average rate 13.57)	in MDL	in USD (MDL / USD annual average rate 12.87)	in MDL	in USD (MDL / USD annual average rate 12.43)
Total Vol.-Stock	259 770 391	18 634 892	213 711 937	15 748 853	143 759 661	11 170 137	156 300 082	12 574 423
Exchange of shares	10 774 031	772 886	16 634 283	1 225 813	104 744 556	8 138 660	81 791 924	6 580 203
Privatization	422 738	30 326	12 152 400	895 534	3 957 424	307 492	24 707 829	1 987 758
REPO transactions	39 698 414	2 847 806	5 094 728	375 441	22 121 224	1 718 821	25 702 867	2 067 809
Tenders	167 890 857	12 043 820	314 735	23 193	946 231	73 522	0	0
Auctions of National Committee on Securities	1 718 122	123 251	1 655 959	122 031	0	0	0	0
TOTAL	**480 302 403**	**34 454 979**	**252 609 320**	**18 615 278**	**275 529 096**	**21 408 632**	**288 502 702**	**23 210 193**

However, it's worthy to mention, that 35% of MDL 480.3 million volume were accounted by Tenders, and in particular by one Tender, as a result of which Turkish Brewery "Efes Beverage Group" bought out 96.5% of Moldovan soft drinks producer "Vitanta-Intravest" SA. Stocks in the quantity of 1,397,302 at the price of MDL 119.92 were sold by the U.S. "Western NIS Enterprise Fund" (more about the Fund in Chapter 6) and by private holders (approximately 4,500 persons). The profit obtained amounted to MDL 94.92 per share, as before this tender the stocks real price barely reached its nominal value of MDL 25. Thus, this transaction amounted to MDL 167,564,456.

The acquired company will now bear the name of "Efes Vitanta Moldova Brewery" SA.

If not taking this amount into consideration, the growth of the traded volumes, executed through MOLDSE, would be then 24% in the Year 2003.

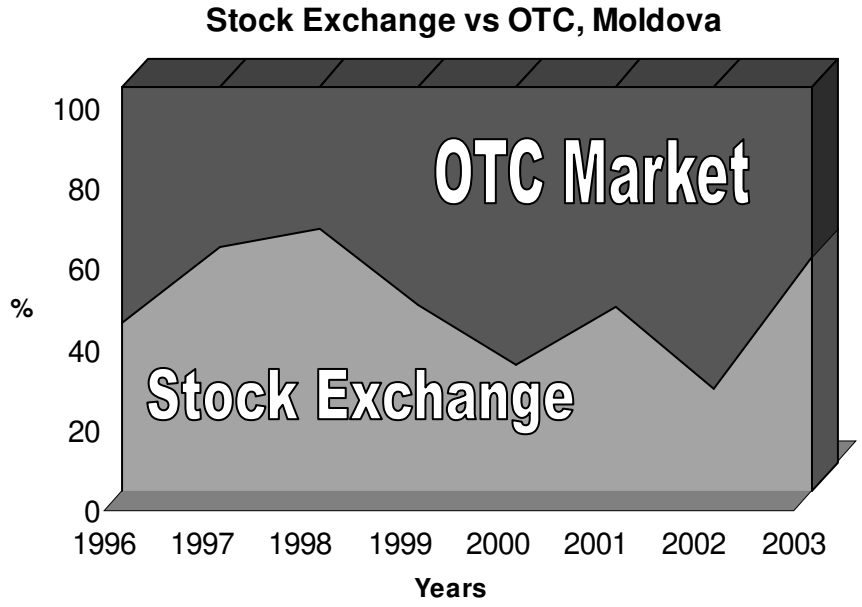
The positive momentum for MOLDSE in the Year 2003 is that the trades on the Exchange itself exceeded the ones on the over-the-counter market by MDL 134.6 million or by 16.3%. This a small victory for National Committee on Securities of Moldova, as its measures taken on the more rigid supervision of the Over-the-Counter market, have brought first positive results.

The Table 7 and Graph 1 below allow to clearly notice that Stock Exchange went through considerable fluctuations in its' correlation between in and off the markets' trades.

Table 7. The percentage of Stock Exchange vs OTC market

	Stock Exchange (%)	OTC market (%)
1996	41,7	58,3
1997	60,3	39,7
1998	65	35
1999	45,9	54,1
2000	31,1	68,9
2001	45,4	54,6
2002	24,9	75,1
2003	58,1	41,9

Graph 1. The Balance between Stock Exchange and OTC markets in Moldova, Year 1996-2003



The Year 2002 was the most destructive for MOLDSE activity, as 75.1% went through off-the exchange market. During the Year 2003 National Committee on Securities elaborated the Concept of the development of the securities market, improving the Control procedures against OTC market. Also, the tendency in a dominance of the stock exchange transactions over off-exchange ones is about the activity of Investment Funds, which following the Concept of their reorganization, approved by the Government, have the right of

purchasing the stocks of the shareholders at a price not lower then 50% of the nominal. Thus the largest transactions of the Year 2003 were about stocks' blocks, bought by Investment Funds.

In the average over these 8 years of MOLDSE's functioning the OTC market holds 53.4% with Stock Exchange at 46.6%.

There is a flaw in Corporate Governance of NCS, which went through major perturbations in its top management and the strategy still seems to be weak and unclear (more on this topic in Chapter 7).

I compiled the Table, pointing out 30 largest deals executed on the MOLDSE during the Year 2003 (see Appendix 2). These transactions amounted to MDL 168,210,574, which is 35% of MOLDSE total trades in year 2003. The Table 8 below indicates the breakdown of stock transactions out of 30 companies researched (see Appendix 2) by the type of the Industry they represent. The industries of highest investor interest were Sugar Industry with 18.8%, Light Industry (knitwear, clothing and leather goods) with 11.4% and Diary Industry with 10%.

Table 8. Stocks traded in Year 2003 by industry (source: List of the trades for the Year 2003 by MOLDSE, January 2004)

	Amount (MDL)	%
Sugar and confectionery	31 588 572	18,8%
Light Industry (knitwear, clothing, leather goods)	19 194 177	11,4%
Dairy products	16 797 052	10,0%
Banking services	12 084 900	7,2%
Production of canned fruits and vegetables	11 643 591	6,9%
Transport services	7 888 820	4,7%
Wine production	7 539 958	4,5%
Poultry farm: production of eggs, raising of poultry	5 312 400	3,2%
Other	56 161 105	33,4%
Total	**168 210 574**	**100,0%**

U.S. Agency for International Development (USAID), created by U.S. Government for Europe and Eurasia regions, supports the creation of functioning market economies in the former socialist states of Eastern Europe and Eurasia. Specifically focusing on:

a) economic restructuring (privatization/corporate governance, legal and regulatory reform, fiscal reform, accounting reform, capital markets, banking), anti-corruption, and pension reform;

b) private sector investment and development, including the agribusiness sector; and

c) improving international, especially regional, trade on the policy and enterprise levels.

Relevant to this paper, Page 7 of USAID Report on Moldova[10] underlines that between 1992 and 2000 one of the directions of the assistance was for Moldova's Market-Based Economic Restructuring. As the Government of Moldova shifted toward a market-oriented economy, it was clear that fiscal and financial reforms were critical. USAID technical assistance to the Ministry of Finance (MOF) has been instrumental in helping the Government to meet IMF conditions related to fiscal and budgetary improvements. Capacity within the MOF in the areas of tax policy, tax administration, revenue forecasting, budgeting, accounting, and cash and debt management have been strengthened. USAID has also provided needed technical assistance to the Parliament to build its capacity for drafting and analyzing legislation required to support fiscal reforms. Within the financial sector, USAID assistance has helped in promoting an efficient private banking sector and a transparent and open securities system. Rationalization of the banking system has been completed, bank legislation and regulations have been updated, off-site bank supervision has improved, western-based accounting practices have been adopted and a stock exchange (MOLDSE) has been established. With regards to the latter one, owing to USAID support, the MOLDSE was equipped with the advanced technology for stock trading auctions.

Furthermore, the page 12 of the same Report[1] indicates that in years 2001-2005 no more further support for the development of capital markets will be provided. In the previous years, as mentioned above, USAID provided direct support for the establishment of the Moldova stock exchange and the development of the

[10] USAID Assistance Strategy for Moldova in 2001-2005, as of January 2001, http://www.usaid.kiev.ua/moldova.shtml

National Committee on Securities. Since then, USAID's involvement in capital markets has been limited to a monitoring function as the two institutions learned to stand on their own.

However, what is important, USAID/Moldova's strategy for years 2001-2005 gives new priority to the agriculture sector and small and medium enterprise (SMEs) development, while continuing to support the restructuring of targeted strategic industries.

As a part of "Trade and Investment Program" provided by U.S. Government, the USAID-supported Western NIS Enterprise Fund (WNISEF) has invested over USD 14 million[11] in Moldovan companies by the end of the Year 2002. The project is scheduled for the period between September 21st, 1994 and September 21, 2004. It promotes the improvement of an investment climate in Moldova and therefore has a possible feedback at a capital market.

The Western NIS (New Independent States) Enterprise Fund (WNISEF), based in Chicago, IL, USA, is a not-for-profit corporation formed on the basis of the Support for East European Democracy Act of 1989 (the "SEED Act") and the 1992 Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act (the "FREEDOM Support Act"). The Fund's primary purpose is promoting the development of the private sector and the policies and practices conducive to such development of the Western NIS region (the "Region"), which consists of Ukraine, Belarus and Moldova. The United States Congress has authorized appropriations of USD 150 million of which, USD 137 million has been committed by the United States Agency for International Development ("USAID") for Fund program purposes and administrative expenditures (the "Grant").[12]

The Western NIS Enterprise Fund (WNISEF)[13] identifies the best companies in fast growing sectors in Ukraine and Moldova and provides these companies with capital and the necessary management tools to evolve from entrepreneurial ventures into professionally managed companies. Proceeds from WNISEF's equity investments ranging between USD 1 million and USD 10 million are used primarily for restructuring

[11] U.S. Government Assistance to and Cooperative Activities with Eurasia, Annual Report 2002, released by the Bureau of European and Eurasian Affairs, http://www.state.gov/p/eur/rls/rpt/23624.htm
[12] Western NIS Enterprise Fund (WNISEF), Annual Report 2002
[13] www.wnisefk.com

and expansion while equity investments are made through the private purchase of common stock. Debt transactions include direct loans to enterprises and lease financing for equipment and/or property.

The WNISEF's portfolio in Moldova currently includes a Glass Container Company (GCC), agricultural distribution center (Roua Univers), a Micro-Enterprise Credit (MEC) and the largest commercial bank (Moldova AgroInd Bank S.A.) in the country. In Year 2002, WNISEF improved corporate governance at its portfolio companies, leading to innovative product introductions, new marketing strategies, rationalized corporate structures, improved profitability, as well as undertaking the steps in strengthening and deepening management teams. The results were excellent, and the companies continued to show impressive performance on the regional market in terms of growth, competitive position, and profitability.

In Year 2002, WNISEF expanded its micro-enterprise lending efforts and committed an additional USD 1.5 million to transform and expand the MEC finance company into a full-service bank. The Fund also succeeded in attracting a foreign strategic investor and further selling (in January 2003) its 85.59% stake in its portfolio company Vitanta-Intravest S.A., a leading Moldovan beer and soft drinks manufacturer. The transaction valued the company at USD 12.45 million, resulting in excess of 2.2 times cash on cash return and an IRR of 20%.[14] The tender offer price per share was MDL 119.92 (USD 8.56), as compared to the average market price of MDL 39.91 (USD 2.91) for shares trading on the MOLDSE during the July-December 2002 period (I mentioned already this transaction in Chapter 5).

WNISEF's portfolio companies employ over 2,100 people and contributed over MDL 160 million (over USD 11 million) to the Moldova budget in taxes, excises, custom duties and social contributions in Year 2002. In Year 2002 WNISEF has provided nearly USD 35,000 in technical assistance funds (management information system, consulting, and training) to its portfolio companies in Moldova. For example, the Fund hosted CEO seminars for top managers of the portfolio companies to assist them in networking among business leaders with a common vision and learning from the experience of successful managers from different businesses. Additionally, 31 employees from WNISEF portfolio companies in Moldova participated in seven seminars in areas including human resource management; networking; sales skills; public speaking; media relations; and company growth though merger, acquisition and IPO.

[14] http://www.wnisefk.com/CompanyProf.asp?sLang=EN&sCompanyCode=Vivanta

Dated December 31st, 2002, the Annual Report of WNISEF provides the following information on the Fund's stake in portfolio companies of Moldova:

1. Moldova AgroInd Bank – 102,500 shares (9.88%)
2. Micro-Enterprise Company (MEC) – 1,244 shares (15.31%)
3. Glass Container Company (GCC) – 175,000 common shares (35.4% of common shares; 26.10% of common + preferred shares)
4. Roua Univers - agricultural distribution center – 50/50 joint venture

On my questions how are the Moldovan companies selected for the investment by WNISEF and what are the major criteria, the Country manager of WNISEF Mr. Alexander Munteanu answered the following: "It's actually determined on case-by-case basis, but the main selection criteria:

- potential for growth and improving profitability. We try to select companies that reflect the competitive advantages of the country and/or region.
- good management (that is very important);
- solid legal standing, our ability to install an adequate Corporate Governance.

Again, only our financial, legal and technical /industry due diligence can determine whether there is a fit between the companies' goals and needs, on one side, and our objectives as an investor, on the other."

On the second question whether WNISEF pays attention to the companies' CSR (Corporate Social Responsibilty), WNISEF representative said as follows: "We do pay attention to this. All our companies are both good fiscal and social contributors. For instance, Moldova Agroindbank and GCC (and also Vitanta, our ex-company) got a special award from the Moldovan Government as the best corporate contributors for 2003."

Another assistance of interest to this paper, provided by U.S. Government for Moldova, is the part of "Business and Economic Development Program". The body responsible is U.S. Securities and Exchange Commission (SEC).

U.S. Securities and Exchange Commission (SEC)[15] provides the technical assistance program in the form of training, reviewing Laws on securities market and responding to detailed requests for assistance.

In the frames of technical assistance program, every year SEC organizes the International Institute for Securities Market Development, a two-week management level training program covering the development and oversight of securities markets. Such workshop gives the opportunity to discuss the core principles of securities regulation among a wide- ranging group of participants from emerging markets. It is conducted by SEC staff and officials from the securities industry and international development organizations. Yearly, Moldova is a constant member of these training programs with the participants from MOLDSE and NCS.

By the end of the Year 2002, Institutes have provided training for nearly 1,000 officials from all five continents. Some statistics data is shown in a Table below.

Table 9. Technical Assistance of SEC, years 2000-2002

Technical Assistance Statistics	
Year 2000	100 senior securities officials from 64 emerging market countries
Year 2001	100 senior securities officials from 66 emerging market countries
Year 2002	120 senior securities officials from 66 emerging market countries

Moldova is a member of the following international securities related Association

The prerequisite to Moldova's membership in Federation of Euro-Asian Stock Exchanges (FEAS), was the Istanbul Declaration, signed on June 25th, 1992 by the Heads of States or Governments of Albania, Azerbaijan, Armenia, Bulgaria, Romania, Georgia, Greece, Moldova, Russian Federation, Ukraine and Turkey. "This was the original step to integrate the Black Sea area to the world economy, to enhance cooperation among its members and to convert this sea area into one of peace, stability and prosperity," from the text of Istanbul Declaration. By March 1995 the necessary structural framework was elaborated and Black Sea Economic Cooperation Organization (BSEC) was officially adopted.

[15] www.sec.gov

Under the BSEC umbrella 8 members of BSEC decided to create a not-for-profit regional Federation of Euro-Asian Stock Exchanges (FEAS), headquartered in Instanbul (Turkey). The FEAS Charter was signed by the presidents of the participating stock exchanges on May 16, 1995. Current President of FEAS is CEO of Istanbul Stock Exchange (ISE) and its Vice-President is CEO of Ukranian Stock Exchange (USE).

The objectives of FEAS are as follows:

- harmonization the legislation related to stock markets between the countries-members.
- encouraging cooperation among the members towards promoting the development of their respective securities markets;
- acting as a representative of the members vis-à-vis other federations and associations of stock exchanges in the world;
- promoting the development of more integrated international stock exchanges in the region and offering listing and trading opportunities for securities issued in the region.

Thus, Moldova is one of 12 founding members of the FEAS since May 1995. BSEC members who are also members of FEAS are Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Moldova, Turkey, Ukraine.

MOLDSE is **not** a member of the following international securities related Associations:

The World Federation of Exchanges (WFE, previously FIBV)[16] based in Paris, is an international organization with the main objective to provide the efficient, fair and secure promotion of national markets through the establishment and maintenance of functional standards for member exchanges as well as to promote the co-operation in establishing adequate standards for transnational issuing, trading and settlement. Members of WFE are required to comply with the "Generally Accepted Principles of Securities Trading" determined by the WFE General Assembly.

[16] http://www.fibv.com/WFE/

The 54 members of WFE are the stock exchanges from all over the world, which all together account for over 97 % of world stock market capitalisation. The combined market capitalization of the markets these exchanges operate is around USD 35,000 billion.[17]

Out of Eastern European region only Budapest Stock Exchange Ltd. (BSE), Warsaw Stock Exchange (WSE) and Ljubljana Stock Exchange (LJSE) are the members of WFE and thus were qualified to fit the rigorous requirements.

The list of requirements, approved in July 1998, contains the following clauses: Organisation and Operations, Access to the Market, Listing of and disclosure on traded financial products, Trading, Clearing and Settlement, Compliance, Risk Management, The Settlement of Disputes, dealing with Complaints of Investors, and Arbitration Facilities, Supervision, Surveillance & Enforcement, Investor Protection, Business Conduct, Foreign Investment, Compliance with the Federation recommendations.

Such areas as stock exchange legal status, monitoring of market participants, proper organizational structure, transparency of securities market together with relevant regulatory and technical infrastructure. Moreover, the section of "Business Conduct" is based on principles of The International Organization of Securities Commissions (IOSCO). The IOSCO Principles were approved together with Resolution by IOSCO at its Santiago, Chile, November 12-15, 1990 meeting. The Resolution called upon all members of IOSCO to recognize the IOSCO Principles as expressing basic standards of business conduct for financial firms, to implement them through their regulatory structure and effective supervisory arrangements and to try to promote the IOSCO Principles in their own countries. However, each IOSCO member was left free to decide whether to implement the IOSCO Principles in the form stated by IOSCO, or to reflect them in its own principles adapted to local circumstances.

Also, the annual report of the exchange needs to be certified by an independent chartered accountant, in compliance with International Accounting Standards (IAS). An application, submitted by stock exchange, is reviewed by the Secretariat of WFE in Paris, and following that two member exchanges perform a due diligence review process of a candidate.

[17] http://www.world-exchanges.org/WFE/home.asp?action=organization

Stock exchanges, which do not fulfil the membership requirements or do not wish to make an application, may also have a professional link to WFE. As contrasted to membership, there is no due diligence procedure for a stock exchange to become an Affiliate or a correspondent. However, the exchange should be operational for over 5 years, comply with the economical parameters within the criteria for WFE membership, mentioned above. It must also demonstrate a clear and realistic commitment to comply with the standards, principles and requirements of the WFE.

Currently there are 22 affiliates and 35 exchanges – correspondents within WFE. There are no affiliates from Eastern European region, however there are several correspondents from this region which are Bucharest Stock Exchange (BSE), Prague Stock Exchange Ltd. (PSE), Belgrade Stock Exchange (Belex), Bratislava Stock Exchange (BSSE), Bulgarian Stock Exchange (BSE), Zagreb Stock Exchange (ZSE).

As I mentioned before, MOLDSE is neither a member, nor an affiliate and nor a correspondent of WFE.

The International Organization of Securities Commissions (IOSCO)[18] Eleven securities regulatory agencies from North and South America gathered in Quito, Ecuador in April 1983 to take the decision of creating this Association.

By now, IOSCO's membership covers Securities Commissions of 181 countries – members. Thus, the Organization's members regulate more than 90% of the world's securities markets and IOSCO is today the world's most important international cooperative forum for securities regulatory agencies.

Among the recent key achievements of IOSCO are the adoption in 1998 of a comprehensive set of Objectives and Principles of Securities Regulation (IOSCO Principles) recognized today by the world financial community as international benchmarks for all markets and the approval in 2003 of a comprehensive methodology (IOSCO Assessment Methodology) that will enable the objective assessment of the level of implementation of the IOSCO Principles in the jurisdictions of IOSCO members and the development of practical action plans specifically designed to correct identified deficiencies.

[18] http://www.iosco.org

IOSCO is recognized today as one of the world's key international standard setting bodies. Cooperation and transfer of expertise, in particular between developed and emerging markets, are at the heart of its mission.

IOSCO is a predominant forum for collaboration in the international securities regulatory community and it’s not clear, why National Committee on Securities of Moldova is still not a member of this Organization.

Foreign Investors

FDI inflows in Moldova have been modest in absolute volumes: USD 71 million in 1997, USD 88 million in 1998, USD 34 million in 1999, USD 127 million in 2000, USD 149 million in 2001 and USD 95 million in 2002 (IMF and EBRD combined data). The cumulative flows of USD 564 million in 1997-2002 represent more than one third of the country's GDP, but this figure may be misleading, as many privatisation-driven FDI came through debt-equity swaps (OECD, October 2003).

FDI breakdown by sectors is the following: electricity, gas and water supply absorbed 50.9 percent, food processing 17.3 percent, wholesale and retail trade 10 percent, transport and communication 7 percent, finance 4 percent, hotels and restaurants 2.3 percent, construction 2.2 percent, agriculture 1.6 percent, real estate transactions 1.6 percent, exploitation of quarries 0.9 percent, and other activities 2.2 percent. Major investing country is Russia, with 45 percent of total FDI in Moldova, followed by Spain and USA (Department of Statistics of Moldova, 2002).

Development of the legal framework for foreign investment in the Republic of Moldova started in 1992 with the approval of the Law on Foreign Investment. The law was further modified number of times to adjust for the realities. In general, the law defines foreign investment, provides guarantees on the repatriation of profits and protects foreign investments.

The law on Foreign Investment permits foreign investment in all sectors of the economy. The only limits relate to state security interests, anti-monopoly legislation, standards of environmental protection, health of the population, the social order, and moral norms. Foreign investors can own 100 percent stakes in a business registered in Moldova. Companies with foreign capital must register with the State Registration Chamber. This is similar to the registration for domestic companies, except for an additional number of documents required for the registration of the foreign capital company. Foreign investors' rights to transfer after tax profits abroad is guaranteed. Discriminating measures hindering foreign investments are forbidden, and appropriate compensation is secured in case of nationalisation or expropriation. Foreign investors are also given guarantees against adverse legislative changes.

Table 10. Top Five Foreign Direct Investors in Moldova in 2002

Major Investors	Sector	Country of Origin
1 LUKOIL MOLDOVA	Oil distribution	Russia
2 LEOGRANT	Hotels & restaurants	Netherlands
3 TRADE HOUSE AROMA	Wines & Spirits	Russia
4 MOSCOW INTERREGIONAL WINERY	Wines & Spirits	Russia
5 GAZITERA SWISS AG	Paper production	Switzerland

Year 2002 was named by mass-media as the Year of Russian investment prevalence.

The figures are proving this statement:

- "MOLDCARTON" J.S. (cardboard factory) - 90% of stocks purchased by Russian Company "Itera". Privatization of this object in general was long and difficult. The first tender was declared in March, 1999 and only in one year and a half, in January 2002 contract has been signed. ("Itera" has paid USD 2,15 million, with the obligation of future investments of USD 11 million into the development of the enterprise);
- "TOPAZ" J.S. (machine-building factory) – 90% of stocks purchased by Russian machine-building Company "Salut" for USD 1 million;
- "VISMOS" J.S. (Winery) – 99.96% stocks for USD 1.4 million bought by Moscow Trading house "Aroma", with further obligation of USD 3.2 million of future investment;
- "CALARASI-DIVIN" J.S. (Winery) – 80% of stocks purchased by Moscow Interregional Winery for USD 3.7 million.
- Three Sugar Factories of Cupcini, Glodeni and Gandeshti – controlling interests were bought out by the companies, registered in offshore zones of United Kingdom, but belonging to a Russian businessman.

These and other Russian investments have the general features:

-All the investors are from Moscow;

-Some of them prefer to deal through offshore companies in United Kingdom or United Arab Emirates;

-In all the cases of investment they own the large distribution channels, what serves as an especially positive factor for the Moldovan companies – subject to investments (Andrey Chegarovsky, December 27, 2002).

By January 1, 2003, according to Department of Statistics of Moldova, 2670 enterprises with foreign investments were registered on the territory of Moldova, by 268 enterprises more than in the previous year. Out of the total number of registered enterprises, 1719 were founded on bilateral and multilateral bases and 951 - with 100% of foreign capital as compared to 808 in 2001.

The deposits into the authorized capital of the enterprises with foreign investments from the date of registration accounted for USD 671 million, out of which USD 414 million (62%) were allotted by foreign investors from 87 countries. The deposits of the local entrepreneurs into the authorized capital of the enterprises from the date of joint stock companies' registration accounted for USD 257 million or 38% of the deposits total.

Major problems of securities market of Moldova

Bonds' issues

Adopted in January 2003 by the Government, Concept on the Corporate Governance of the enterprises of national economy, says that in order to improve the development of the securities market "the activity should be directed into the stimulation of placing and turnover of new types of securities, especially bonds". Why bonds "especially"? Experience of issues of bonds in Moldova is not great at all, but the one Moldova experienced by now, hasn't testified any special advantages of this way of money creation.

For example, declared in the Year 2002 the issue of bonds "INCOMLAC" (Dairy factory) has not taken place finally. Under the unconfirmed information, "Incomlac" applied for the bank loan and the one of the conditions of receiving this loan was the refusal of bond issue (Chegarovsky, January 31, 2003).

However, there are already companies, which try to utilize the promoted by Government securities market instrument. On its last year annual shareholders meeting, on April 19, 2003 "COVOARE-UNGHENI" (carpets manufacturing factory) decided to issue the long term bonds of the amount of MDL 10 million. Issue is planned as an attempt to bring into manufacturing process the relatively cheap resources. Firstly, the company wanted to settle a 16-17% interest rate, which would be a competitive one compare to banks, which in average pay 11-13% to corporates and 14% for private long-term depositors. Government papers at that moment paid 15-16% p/a, but their advantage is that the income on these papers is non-taxable in

contrast to corporate bonds. The decision made was in a “sleeping position” until October 2003, due to unfavourable times on the financial market.

The Government securities are paying 17-18%, the price of bank loan is about 22%. Therefore the companies, wishing to issue bonds, have to enter into the three percent margin between government and bank instruments.

The legislation about bonds is still rather vague and there is not enough trust among population to this kind of instruments. The bonds are to be traded at the Stock Exchange at a fixed price, through brokers. Only in such a way, through secondary market, their liquidity can be granted.

The “fraud” on the securities market, related to bonds, was executed by the Investment Fund “DAAC HERMES”. In the end of the Year 2002 from October to December, NCS has registered the issues of bonds of four Joint Stock companies for a total amount of MDL 5,596 thousand (Andrey Chegarovsky, October 10, 2003), including "PIELART-RESOURCE" (MDL 1,550 thousand, 12 % annual), "CHEREALE-KAHUL" (MDL 1,046 thousand, 15 %), "PIELART" (MDL 2 million, 13 %), "ATK-AGROTEHCOMERT" (MDL 1 million, 14 %). Bonds were issued for the term of two to three years with repayment of principal and interest at the end of a term. It proved to be that In such a way Investment Fund “Daac Hermes” found the possibility of financing its own companies of interest, where the fund is a major shareholder.
The direct financing of the companies by Investment Funds is prohibited by Law, so the form of bonds’ issue was a good way out with rather low, compare to government securities, offered yield.

Governance difficulties

Unfortunately, the legislation of Moldova’s securities market continues to become more and more complicated, but not for the sake of the market, instead for the sake of the process of regulation as a whole. Laws are very common to be adopted from the U.S. or Western Europe practices without necessary corrections, which would correspond to the realities of the “doing business in Moldova”.

Governance difficulties, frequent change in government composition and objectives and a lack of ownership on the economic programs and policies adopted were a factor that contributed to a poor performance. No

alternative program that would represent a more viable option to the ones proposed by multilateral organizations was suggested.

The Corporate Governance of the main "Ruler" of the Stock Exchange, cannot be called as a safe or a stable one. The organizational changes continue to take unexpected turns together with every new Chairman (by now NCS had already 5 Chairmen). The last Chairman, who his activity in Year 2002, decided to completely reorganise the NCS.

If before each division of NCS served a definite functions of control, licensing, issue registrations, monitoring, from December 2002 all the divisions became multifunctional, and will be supervising the separate sectors of securities market (Investment Funds, brokers, independent registrars, issuers etc.) by providing all the range of services from registration to liquidation.

Legal protection of rights and legal interests of the shareholders

The process of implementation of existing legislation of the Republic of Moldova to the protection of shareholders' rights is characterized by a poor performance. Recently, the conflicts more frequently arise out among shareholders of joint stock companies and joint stock companies themselves. Such conflicts lead to a breach of the rights of shareholders holding both small and big blocks of shares, and as a result the activities of commercial organizations are blocked, their members incur significant losses, different investment projects are suspended or terminated, etc (Violeta Datsco, OECD, April 17-18, 2002).

Stocks' Issue

The problem in many respects is about the very low level of additional stocks' issues which could circulate freely on the secondary market. Are the new owners of the enterprises guilty in not wishing to let out the new issues? The reasons can be understood: too many forces and funds have been spent onto concentration of control over the company to risk now even for the sake of attraction of really necessary means for development (Andrey Chegarovsky, February 28, 2003).

As NCS's Department Head Mrs. Ludmila Bunu said in the interview "The process of capital concentration in large Joint Stock Companies is more or less finalized, and the lack of the demand for corporate stocks is now about low profitability of the enterprises."

Buyouts of stocks

During summer 2003, three investment funds - "Dividend", "Asito-Invest" and "Agrofond" were particular active, buying out the stocks of a sugar factory “NORD-ZAHAR” J.S., having bought together more than 28 % of factory’s stocks. On August 11, 2003 during one trading session at a stock exchange three mentioned Investment Funds bought together 24,7% of stocks of cannery “ORHEI-VIT” J.S, the amount of the transaction was MDL 7,5 million (see Appendix).

During the Year 2003, three funds were also actively trading the majority holdings in such companies as “DANA” (clothing, garments manufacturing), “RADA” (knitwear manufacturing), “ARTIMA” (leather clothes production), Intreprinderea de TRANSPORT AUTO No.1 (transport services), PRODUSE TEHNICE (non woven fabrics), TERMOTRANSAUTO (transport services). All the mentioned companies can be found in the List of 30 largest transactions of the Year (see Appendix)

These funds proved to be acting in the interests of one of the largest financial and industrial groups of Russia "Aleph - Group". In the end of July, 2003 NCS even introduced the restrictions to the claimed as “suspicious” activities of these three funds (Andrey Chegarovsky, September 05, 2003).

Questionable Buy-back

On March 05, 2004 for the first time in the ten years of securities market in Moldova, the large meat-packing factory “Carmez” J.S has declared the tender on the buy back of its stocks with the purpose of reduction of the authorized capital by 50%. The reason is to replace the current major shareholder. Annual meeting of shareholders voted for the buyback of the 2 million out of 4,1 million issued stocks at a price of MDL 9.25 (nominal price MDL 10) to decrease the authorised capital. In August 2003, two dealer companies “Defend” and “Bonsheron” (both belong to Exiton-Group) have bought 44 % of stocks of a meat-packing factory. As it became known later, this block was already in a pledge at the company “Elester Invest AG”, registered in Liechtenstein, under the loan granted to “Exiton” taken in Years 2000-2001. "Exiton" has not paid back the loan, and in September under the Collateral Agreement 44 % of stocks have been passed into the ownership of “Elester Invest AG”. Today this company proved to be a largest shareholder of the factory. Among the rest 3,5 thousand shareholders there is none to own at least 5% of the stocks. “Carmez” may buy back 44% from “Elester Invest AG” at a announced price of 9.25, which is currently 1,5 times higher

than a market one. It's not clear who was the initiator of such tender and who is more interested in this conflict.

The mentioned above are the major problems, which I could distinguish for the last two years of the operational activity of the Stock Exchange of Moldova. To address them properly would mean to improve Corporate Governance quality and guarantee fair approach to professional participants of the market by more adequate legislation.

An example of a positive event would be acceptance to worldwide associations like OECD, IOSCO (e.g. Moldova is already a member of BIS, EBRD, IBRD, IFC, IMF, OSCE, UN, UNCTAD, UNESCO, UNIDO, UPU, WTO and other), passing of more stringent or improved regulatory laws (on bankruptcy, banking sector, securities markets) or invitation to early EU accession talks.

A negative event would be currency crisis, government crisis, tightening of capital account restrictions, external debt restructuring, or severe crisis in neighbouring or related countries. Countries, like Moldova, with strong economical and political links with Russia are influenced by the stock market performance in Russia, especially during the turbulent periods of crisis. It was proved by a Russia's 1998 crisis, which had rather negative impact on Moldova's economy as well.

There is a tendency, that in case of a global crisis, foreign investors fail to differentiate between fundamentally better or worse emerging markets; the prevailing investment attitude is "grab your money and run". Thus, Moldova is highly affected by the turbulence in other emerging markets worldwide.

The rule of thumb suggests that investors are more sensitive to negative news than to positive news, perhaps a typical reaction for emerging markets. Emerging markets are "by definition" characterized by higher risks, so investors might exaggerate the extent and seriousness of a negative event.

For example, a change of government does not usually influence stock market returns in developed countries, but in emerging markets the same event often has more influence on stock prices. The government change may bring, first, a government crisis that would then be defined as a negative event, and the stock market would react negatively because of perceived instability and uncertainty. Or, this may be a positive event if the previous government has been inefficient and the perception is that any replacement will improve the situation. Another factor beyond the control of the country is its size. As Claessens, Djankov and Klingebiel (2000) argue, the size of a market will play a large role in the perspective of stock market viability. If there are only a few large companies suited for public listing (like in Estonia, Latvia, Lithuania, Slovenia, Romania), the question of a long-term existence of an independent local stock market becomes an issue.

The economies of scale are still alive – the recent cross-border mergers of large stock exchanges show that costs of running a stock exchange may become high (technology, trading systems, analysis, etc.). Therefore, it is quite realistic that the experiment of small, local stock exchanges will end as they are 'eaten up' by the larger regional exchanges. Already now larger CEE companies prefer to list in the foreign exchanges, so the consolidation of regional stock markets is just a matter of time. Recent statistics shows that as emerging economies improve their macroeconomic and financial fundamentals, there is an increasing migration of capital rising, listing, and trading activity to international exchanges (Claessens, Klingebiel, and Schmukler, 2002).

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BSEC - Black Sea Economic Cooperation Organization

ISE - Istanbul Stock Exchange

MDL – Moldovan Leu – national currency of the Republic of Moldova, status - freely floating;

MEC - Micro-Enterprise Credit company, Moldova

MOLDSE – Stock Exchange of Moldova (in Romanian Language: BVM – Bursa de Valori a Moldovei)

NCS – stands for National Committee on Securities (in Romanian Language: CNVM - Comisia Națională a Valorilor Mobiliare)

ND – stands for National Depositary (in Romanian Language: DNVM - Depozitarul National de Valori Mobiliare al Moldovei)

SEC - U.S. Securities and Exchange Commission

SME - Small and Medium Enterprise

USE - Ukranian Stock Exchange

USAID - U.S. Agency for International Development

WFE - The World Federation of Exchanges

WNISEF - Western NIS Enterprise Fund

Appendix 1. List of broker companies registered at MOLDSE.

N	Company Name	Address	Contact telephones	Area of activity	Type of the Company	Number of employees	Web-site
1	"ASITO-BROKER"	str. Tighina, 65, of.509, Chisinau, MD2068	(3732 2) 270-552	Operations with securities, investment activity	Private	n/a	n/a
2	"BANCA DE ECONOMII"	str. Columna 115, Chisinau, MD2005	(3732 2) 241-103	Banking services	Public	1706	www.bem.md
3	"BANCA DE FINANTE SI COMERT"	str. Puschin 26, Chisinau	(3732 2) 220080	Banking services	Public	237	www.fincombank.com
4	"BANCA SOCIALA"	str. Banulescu Bodoni 61, Chisinau, MD2005	(3732 2) 225-185	Banking services	Public	923	www.socbank.md
5	"BONSERON" SRL	str. Sarmizejetuza 90/2	(3732 2) 507076	Operations with securities, investment activity	Private	n/a	n/a
6	"BROKER-SERVICE"	str.Bucuriei 12, Chisinau, MD2012	(3732 2) 508-631	Operations with securities, investment activity	Private	3	n/a
7	"BROKWEST" SRL	str. Teatrala 2, ap.8	(3732 2) 232600	Operations with securities, investment activity	Private	n/a	n/a
8	"BUSINESSBANK"	str. Alexandru cel Bun, 97	(3732 2) 224591	Banking services	Public	130	www.businessbank.md
9	"DAAK-INVEST"	str. Calea Iesilor 10, Chisinau	(3732 2) 713-419	Operations with securities, investment activity	Private	8	n/a
10	"DOCRAD-MANAGERUL FONDULUI" SA	MUN CHISHINAU STR A RUSSO 18/3	(3732 2) 449-180	Operations with securities, investment activity	n/a	n/a	n/a
11	"EXITON-SPRAD"	str. Decebal 72/1, Chisinau	(3732 2) 537-123	Operations with securities, investment activity	Private	6	n/a
12	"FINCOM"	str. Tighina 65, cab 504, Chisinau, MD2001	(3732 2) 270-663	Operations with securities, investment activity	Private	7	n/a
13	"IUVENTUS-DS"	Stefan cel Mare 65, cab 404, Chisinau, MD2012	(3732 2) 271-337	Operations with securities, investment activity	Private	7	n/a
14	"MABROK" SRL	or. Chisinau str. Sciusev 47	(3732 2) 541942	Operations with securities, investment activity	n/a	n/a	n/a
15	"M-INVEST"	s. Hincesti 38a, Chisinau, MD2001	(3732 2) 280-334	Operations with securities, investment activity	Private	n/a	n/a
16	"MOLDINDCONBANK"	str. Armeana 38, Chisinau, MD2001	(3732 2) 576-835	Banking services	Public	643	www.moldindconbank.md
17	"MOLDOVA-AGROINDBANK"	str. Cosmonautilor 9, Chisinau, MD2006	(3732 2) 220-671	Banking services	Public	1344	www.maib.md
18	"OLDEX"	bvd. Stefan cel Mare 1, Chisinau, MD2012	(3732 2) 270-024	Operations with securities, investment activity	n/a	n/a	n/a
19	"PROMOVARE"	Chisinau, str A. Russo 18a MD2012	(3732 2) 449-518	Operations with securities, investment activity	n/a	n/a	n/a
20	"REAL-MANAGER"	str. Independentii 33, Balti, MD3100	(08231) 61-460	Operations with securities, investment activity	Private	3	n/a
21	"SNM-MANAGERUL FONDULUI" SA	Chishinau str.Dimo 13	(3732 2) 441-130	Operations with securities, investment activity	n/a	n/a	n/a
22	"UNIBANK"	Chishinau, Str B.Bodoni,45	(3732 2) 226631	Banking services	Private, all the stocks belong to LUKoil, Russia	162	www.unibank.md
23	"UNIVERSALBANK"	bvd. Stefan cel Mare 180, Chisinau, MD2004	(3732 2) 246-888	Banking services	Public	143	www.universalbank.md
24	"VAL INVEST"	str. A. Russo 18 , Chisinau, MD2012	(3732 2) 449113	Operations with securities, investment activity	n/a	n/a	n/a
25	"VICTORIABANK"	Chishinau, str 31 August, 141	(3732 2) 576-350	Banking services	Public	426	www.victoriabank.md
26	BC "ENERGBANK"	str. Vasile Alexandri 78,Chisinau, MD2012	(3732 2) 276-033	Banking services	Private	282	www.energbank.com
27	BC "EUROCREDITBANK" SA	str. Izmail, 33	(3732 2) 500128	Banking services	Public	73	www.eurocreditbank.md
28	BC "EXIMBANK" SA	Chishinau Bd Stefan cel Mare 6	(3732 2) 549-828	Banking services	Public	261	www.eximbank.com
29	BC "INVESTPRIVATBANK"	str. Sciusev, 34	(3732 2) 540-555	Banking services	Public	102	www.ipb.md
30	BC"MOBIASBANCA"	Bd. Stefan cel Mare, 81a, Chisinau, MD2000	(3732 2) 546-293	Banking services	Public	230	www.mobiasbank.com

Appendix2: The List of the biggest trades in Year 2003, executed on the Stock Exchange of Moldova (descending by Amount of the deal)

	Company Name	Stock price	Number of stocks	Amount (MDL)	Area of activity	Number of emloyees (nov.2003)	Year of creation
1	SA NORD-ZAHAR	7,42	3 620 458	26 879 688	Sugar and confectionery	303	1994
2	SA INCOMLAC	73,91	202 973	15 001 734	Dairy products	420	1994
3	SA CIMENT	30,02	664 945	19 960 593	Construction materials of cement, gypsum and clay	520	1994
4	SA BANCA DE FINANTE SI COMERT	100,00	120 849	12 084 900	Banking services	237	1993
5	SA FINN AGROFOND*	3,92	2 151 102	8 427 851	Operations with securities, investment activity	n/a	n/a
6	SA ORHEI-VIT	15,10	497 755	7 516 101	Production of canned fruits and vegetables	350	1945
7	SA Combinatul de Vinuri din Taraclia	8,09	733 205	5 934 779	Wine production	297	1994
8	SA TERMOTRANSAUTO	24,94	217 176	5 417 122	Transport services	n/a	n/a
9	SA AVICOLA-BUCOVAT	8,00	664 050	5 312 400	Poultry farm: production of eggs, raising of poultry	n/a	n/a
10	SA FINN DIVIDEND*	3,92	1 351 524	5 292 118	Operations with securities, investment activity	n/a	n/a
11	SA RADA	8,54	509 156	4 348 100	Light Industry (Knitwear manufacturing)	1200	1973
12	SA Fabrica de Conserve din Glodeni	10,00	412 749	4 127 490	Production of canned fruits and vegetables	170	1967
13	SA ASCHIM	7,82	509 201	3 984 204	Chemicals production	341	1972
14	SA ARTIMA	4,14	931 117	3 853 780	Light Industry (Leather articles)	700	1945
15	SA METALCOM	10,00	382 157	3 821 570	n/a	n/a	n/a
16	SA PIELART	40,73	88 016	3 584 892	Leather Industry (artificial leather production)	454	1957
17	SA AGROINDTEH-FRIG	34,09	100 180	3 415 329	n/a	n/a	n/a
18	Fabrica de confectii IONEL	2,00	1 604 867	3 209 734	Clothing, garments	2321	1945
19	SA CUPCINI-CRISTAL	8,67	324 484	2 812 835	Sugar and confectionery	780	1962
20	SA AGROMASINA	5,64	441 644	2 489 841	Agricultural machinery	140	1949
21	Intreprinderea de Transport Auto Nr.1	17,00	145 394	2 471 698	Transport services	n/a	n/a
22	SA Produce Tehnice	0,70	3 500 111	2 450 078	Nonwoven fabrics	30	n/a
23	SA AGAT	14,81	149 931	2 220 541	Metal Industry	150	1994
24	SA DANA	22,65	96 370	2 182 396	Clothing, garments	1000	1952
25	SA ALIMENTARMAS	9,97	209 999	2 094 387	Food-processing industry equipment	300	1945
26	SA TRICON	30,15	66 836	2 015 275	Light Industry (Knitwear manufacturing)	1300	1966
27	SA CERAMICAT	31,07	64 520	2 004 593		n/a	n/a
28	IM SUDZUCKER-MOLDOVA	9,02	210 205	1 896 049	Sugar and confectionery	n/a	n/a
29	SA Combinatul de Industrializare a laptelui din Cupcini INLAC	11,75	152 793	1 795 318	Dairy products	400	1984
30	SA PRODUSE CEREALIERE	1,58	1 015 245	1 605 179	Wine production	420	1944

Total: 168 210 574

*FINN - means Investmend Non-mutual Non-specialized Fund