



Moldova

Government Advice to Economic Development (Lot 2)

Feasibility Study for the Planned Investment Site in Cahul

Presented to

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH Chisinau, Moldova

June, 2018





Your contact person

within GFA Consulting Group GmbH is Anke Küsel

Moldova

Government Advice to Economic Development (Lot 2)

> Feasibility Study for the Planned Investment Site in Cahul

Address GFA Consulting Group GmbH Eulenkrugstrasse 82 | 22359 Hamburg Germany Phone: +49 (0) 40 60306 - 167 Fax: +49 (0) 40 60306 - 199 E-mail: anke.kuesel@gfa-group.de







CONTENT

LIST OF	TABLES	II
LIST OF	FIGURES	ш
ABBREV	IATIONS	IV
EXECU	TIVE SUMMARY	I
1	INTRODUCTION	1
2	SITE CHARACTERISTICS AND SWOT- ANALYSIS	3
2.1	Location, utilities and connections to the transport network	3
2.2	Socio-economic profile and trends	6
2.3	SWOT-Analysis	8
3	ANALYSIS OF THE INVESTMENT POTENTIAL	10
3.1	Investment potential at the international level	10
3.2	Regional and local relocation and expansion potential	11
3.3	Industry-specific investment potentials	12
3.4	Identification of key needs of investors	13
4	ANALYSIS OF THE COMPETITIVE ENVIRONMENT	16
4.1	Competition at the international level	16
4.2	Competition at the regional and local level	17
5	ECONOMIC AND FINANCIAL ANALYSIS	19
5.1	Estimation of capital and operating expenditure	19
5.2	Estimation of revenues	21
5.3	Profitability indicators	22
5.4	Contribution towards socio-economic development	24
6	DEVELOPMENT CONCEPT	26
6.1	Phased approach	26
6.2	Infrastructure and configuration	26
6.3	Promotion of the planned site	30
6.4	Organisational and financing model	39
7	NEXT STEPS	42





LIST OF TABLES

Table 1:	Population forecast for Cahul	7
Table 2:	Age structure of the population	8
Table 3:	Strengths & weaknesses of the planned investment site	9
Table 4:	Opportunities & threats for the planned investment site	9
Table 5:	Labour intensity, skills needs and area required in selected manufacturing industries and segments	13
Table 6:	Estimates of area and labour demand in the medium term	15
Table 7:	Further sites in the Cahul district	18
Table 8:	Estimated capital expenditure (1.000 MDL) for the period 2018 – 2022	19
Table 9:	Breakdown of the estimated capital expenditure (1.000 MDL) for the period 2018 – 2022	20
Table 10:	Breakdown of the estimated operational expenditure (1.000 MDL) for the period 2018 – 2022	21
Table 11:	Forecast of the number of residents and the size of land taken up in the period $2018 - 2022$	21
Table 12:	Breakdown of the estimated revenues (1.000 MDL) for the period 2018 – 2022	22
Table 13:	Cash flow forecast (1.000 MDL) and selected profitability indicators for the period $2018 - 2037$	23
Table 14:	Sensitivity analysis – effects of changes of the CAPEX and administrative fees on the internal rate of return for the period 2018 – 2037	24
Table 15:	Size of available plots	28
Table 16:	Relevant trade fairs	38





LIST OF FIGURES

Figure 1:	Location of the planned site	3
Figure 2:	Utility connections for the planned site	4
Figure 3:	Connections to the transport network	5
Figure 4:	Main roads and public transport in Cahul	6
Figure 5:	Population in Cahul	7
Figure 6:	Jobs created by FDI projects in Europe by sector in 2016	11
Figure 7:	Competing locations at the regional level	17
Figure 8:	Private FEZ subzone in Cahul	18
Figure 9:	Layout plan	27
Figure 10:	External connection to the main networks	28
Figure 11:	Future development phases	29
Figure 12:	Operationalisation of the target group definition with exemplary company profiles	32
Figure 13:	3D-Illustration of Rzeplin Industrial Park (Poland)	35
Figure 14:	Brochure iPark (Ukraine)	35
Figure 15:	Website of Kaunas Free Economic Zone (Lithuania)	36
Figure 16:	Exemplary dispersed organisational model	40





ABBREVIATIONS

CAPEX	Capital Expenditure
CEE	Central and Eastern Europe
EIB	European Investment Bank
EU	European Union
EY	Ernst & Young
FDI	Foreign Direct Investment
FEZ	Free Economic Zone
FNPV	Financial Net Present Value
FRR	Financial Rate of Return
ICT	Information and Communications Technology
MDL	Moldovan Leu
MIEPO	Moldovan Investment and Export Promotion Organization
ODIMM	Organization for Small and Medium Enterprises Sector Development
OEM	Original Equipment Manufacturer
OPEX	Operational Expenditure
SEE	Southeastern Europe





EXECUTIVE SUMMARY

Based on a transparent and competitive selection process, the site in Cahul has been awarded technical assistance in form of a thorough feasibility study as a starting point. The pilot-initiative forms part of the technical cooperation project "Economic policy advice to the Moldovan Government" which is implemented by GIZ in close collaboration with the Ministry of Economy and Infrastructure of the Republic of Moldova and the Moldovan Investment and Export Promotion Organization (MIEPO).

The comparison of strengths and weaknesses of the site, in principle, indicates positive preconditions for attracting a sustainable volume of investment. Key strengths relate to the comparatively large labour force potential, the FEZ status and the public ownership while the high altitude difference constitutes a main obstacle.

With respect to external factors, the development of the labour force potential and the competitiveness at the macro-level will have a strong impact on the development prospects of the site. The site can benefit from the continuing shift of production to locations in Southeastern Europe. However, rising salaries and a further decline of the labour force could reduce the competitiveness.

The development of investment dynamics, Moldova's track record as well as recent company enquiries and projects in the region indicate that there are relevant investment potentials which the planned site can tap. The planned site will most likely have to focus on international investment potentials as they are considered significantly more promising than the regional relocation and expansion potential.

The results from the analysis of the competitive environment give rise to the conclusion that at the international level Moldova is well-positioned with respect to the most important location criteria, in particular the operating costs. Furthermore, the promotion of the planned investment site could build upon a strong position at the regional and local level where competition is less intense.

The results from the financial analysis, however, indicate that the planned project is not profitable from a financial perspective. For the 20 year time horizon, a negative net present value (-11.3 million MDL) and internal rate of return (-0,1%) are forecasted. This is mainly attributable to the high initial expenditure for the levelling of the site. It should be noted in that context, however, that according to the estimates, the project is generating a positive cash flow from the fourth year onwards. Those findings indicate that after initial funding (e.g. by a public grant), investments to extend or upgrade the site could be financed in the medium and long term from own resources.

It should be considered that the project can make an important contribution towards the socio-economic development of the region. The creation of additional direct and indirect employment – in the range of 2,400 new





jobs – and the additional income generated this way constitute the principal benefit at the regional level. At the same time, revenues for public budgets can be increased significantly. This relates in particular to labourrelated taxes and social security contributions as well as – to a lesser extent – to corporate income taxes and VAT.

Against the backdrop of the results of the different stages of analysis, a phased development approach seems advisable. Taking into account the estimates of area and labour demand, it seems advisable to start with a first phase comprising approximately 15 ha. Depending upon the performance and the development of external factors a next phase could be initiated which could also take into account the lessons learnt during the first stage. A key prerequisite for the proposed phased approach is that the land for the proposed project as well as for future expansions remains in public ownership.

In order to use resources efficiently, it is recommended, to set up the offsite infrastructure (incl. necessary soil works) and the fence as a first step to support the promotion of the site and to prove commitment in the eyes of investors. The subsequent investments (on-site infrastructure, buildings for customs and administration) should only be initiated once the first residents have been attracted.

Systematic investment promotion efforts are of critical importance to tap the identified potentials. The initial focus of investment promotion efforts should be on the following product groups and activities:

- Metal, mechatronic and plastic components and products for the automotive as well as further application markets
- Wire production
- Assembly of trailers and construction machinery
- Agro-processing and food production
- Furniture components and construction materials.

To prepare the implementation of marketing activities which should be carried out in close collaboration with strategic partners and intermediaries, a basic set of target-group-specific marketing materials should be developed. A brochure / exposé should highlight the key messages and location-specific benefits. A fact sheet should summarise the key messages and information from the brochure. The design should be aligned to the guidelines of the planned brand book for FEZ.

In order to raise awareness for the new investment site, a number of image building measures can be carried out. This includes the development of an online presence as well as regional PR activities and events. Furthermore, a key focus of marketing activities should be on pro-active lead generation campaigns in close collaboration with partners – such as MIEPO. Lead generation campaigns should be carried out in the context of relevant trade fairs and events and should be aligned to the defined target groups.

In order to reduce the burden on public budgets, a lean organisational model is recommended. It should be considered to develop the site as a





subzone of the FEZ Balti, which offers promising synergy potentials and allows to benefit from the wide spectrum of relevant experience of the FEZ administration and thus to avoid redundancies.

At the same time, it is of crucial importance that key partners – such as local and regional authorities – and their expertise are integrated to fully unlock the potential of the site for regional development. In order to ensure a high level of cooperation and coordination, it is advisable to establish a task force or steering committee in which all relevant stakeholders are represented. Based on a joint initiative approach, this body could define strategic objectives as well as operative measures and coordinate the delivery of complementary services.

The financing model should also reflect the joint initiative approach mentioned above. Initial funding – in particular of the land preparation and offsite infrastructure – will largely have to be sourced from the budgets of the municipality and the raion. In addition, it is recommendable to submit an application for funding to the regional development agency. As indicated in the financial analysis, it seems realistic that in the medium term the FEZ administration can finance the necessary capital expenditure for extending and upgrading the site from revenues generated – in particular from administrative fees. In the medium and long term, it should also be considered to involve private sector expertise and resources in the expansion or upgrading of the site to meet the increasingly sophisticated service and infrastructure needs from investors.

From an investment promotion perspective, it is vital not only to analyse the feasibility of a site for industrial development but also to ensure planning security for potential investors. Against this background, as a next step, a zoning plan (PUZ) will be developed for the site building upon the results from the feasibility study. The project partners seek to ensure that relevant international experience is transferred and integrated into the process of elaborating the zoning plan.

Based upon the results and the experience gained as part of this pilotinitiative, GIZ will decide – in close collaboration with the Ministry of Economy and Infrastructure of the Republic of Moldova – upon further tailored support for the selected investment sites as well as upon a roll-out of a larger-scale programme.





1 INTRODUCTION

In close collaboration with the Ministry of Economy and Infrastructure of the Republic of Moldova and the Moldova Investment and Export Promotion Organization (MIEPO), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, acting on behalf of the German Government, is implementing a technical cooperation project named "Economic policy advice to the Moldovan Government" for three years from 2016-2018. The project aims at improving the investment conditions of Moldova in order to attract national and foreign investments, which should create employment opportunities for the local population.

As part of this cooperation project, three strategic investment sites in Moldova have been awarded technical assistance based on a transparent twostage competitive application process. In addition to the site in Cahul, proposals from Calarasi and Ceadir-Lunga have been selected taking into account in particular the suitability of the locations, the relevant investment potential and competitive position as well as the added value and risks of the development projects.

The sites receive technical assistance in form of a thorough feasibility study – including a development concept – as well as a zoning plan (PUZ) to ensure planning security for local and foreign investors. The transfer of international experience in planning investment sites – integrating good practice examples amongst others from Germany, Hungary and Poland – forms an important element of the technical assistance. The measure is designed as a pilot-initiative. Depending upon the experience gained, it is planned to rollout a larger-scale programme supporting the development of additional investment sites.

Against this background, the report at hand documents the findings from the assessment of the market, technical and financial feasibility of the proposed site in Cahul as well as the conclusions and recommendations regarding the way forward.

The development of the feasibility study has been based on the following guiding principles:

- **Market oriented approach:** Particular emphasis has been placed on the assessment of the investment potentials and competitive position in order to come up with a realistic development model.
- **Needs oriented approach:** The needs of the investors have formed an important point of reference for the analyses carried out as well as for the recommendations, e.g. regarding the development of the infrastructure and service portfolio or the promotion of the site.
- **Unprejudiced approach:** The development model has been shaped and refined based on the assessment of the technical, market and financial feasibility without a predetermined profile or size of the project.
- Implementation oriented approach: The typical practical challenges have been kept in mind throughout the process and have been addressed as part of the recommendations. Good practice examples have been used to illustrate recommendations.





- Phased approach: The development process has been divided up into different stages to reduce the risks and allow for refinements in the course of the implementation.
- Participatory approach: Stakeholder engagement has formed a key element of the work programme to align the development model to the regional context and to ensure acceptance and ownership. As part of the site visits, interviews and round table formats have been carried out involving amongst others representatives of the raion and municipality, utility providers, the local branch of the chamber of commerce and the management of the Free Economic Zone Balti Subzone Cahul. Further interviews were conducted with industry and investment promotion experts (e.g. from MIEPO) as well as with international investors.

The report is structured as follows: An assessment of the site characteristics and a SWOT-analysis form the starting point. Chapter 3 and 4 focus on the market feasibility analysing the investment potentials and competitive environment at the international as well as regional and local level. Building upon the findings from the previous stages, chapter 5 contains an assessment of the economic and financial feasibility which also takes into account the potential contribution of the proposed project towards the socio-economic development of the region. Considering interdependencies between the dimensions technical, market and financial feasibility, chapter 6 outlines a stagebased development concept covering the areas infrastructure and configuration, promotion, organisation and financing. The report concludes with an outlook on the next steps foreseen as part of the technical assistance.





2 SITE CHARACTERISTICS AND SWOT-ANALYSIS

2.1 Location, utilities and connections to the transport network

The land foreseen for the project is located in the village Crihana Veche – next to the eastern boundary of Cahul. According to the land registry, the total size of the land amounts to 40 ha, of which 23 ha are foreseen for the development project.



Figure 1: Location of the planned site





The surrounding area is predominantly used for agricultural purposes. On the land adjacent towards the west, a number of companies are located. The surface of the plot is formed like a wave with tops on the boarders and a valley in the middle.

All necessary utilities are in close proximity of the site. The estimated distances to handover points are as follows:

- Gas: middle pressure ~300m from the north-west boundary of the plot
- Power: sub-station ~1,000m from the south-east boundary
- Water: ~350m from the north-west boundary
- Sewage: ~400m from the north-west boundary.

A 10kV line extends along the regional road. The power substation is a located on the neighbouring plot towards the East. On the opposite side of the road runs a high pressure gas supplying pipe. In proximity of the city – northwest of the site – the gas sparger is located.

On the northern boundary is a regional road without a direct connection to the plot. The access to the site is currently provided by a field road. As part of the development process, it is planned to connect the site directly to the regional road.





Cahul is located in the southwestern part of Moldavia close to the Romanian border. The city is connected to the national road network via the following roads:

- R34 in direction Cantemir (north)
- R34 in direction Slobozia Mare (south)
- R38 in direction Balabanu (east)
- R38 in direction Vulcanesti (south-east)





Furthermore, via the R34 Cahul is connected to the Romanian boarder check point approximately in distance of approximately 6 km from the centre.

Cahul is connected to the main railway network. The railway station serves the city and is operated by Moldovan Railways. It provides direct rail connections to Chisinau and to Giurgiulesti International Free Port.

Cahul International Airport is located at 8 km distance from Cahul. Currently the airport is not in operation. The distance to Chisinau International Airport amounts to approximately 170 km. Giurgiulesti International Free Port is located approximately 50 km from Cahul. It is the only Danube River and Black Sea port in Moldova with direct access to international waterways.

But Coderil Congrat Baseau Fibru Congrat Sanalia Sanali Sanalia Tonnca Longrat Baseau Congrat Baseau Tonnca Longrat Baseau Congrat Baseau Gonga Congrat Baseau Congrat Baseau Gonga Congrat Baseau Baseau <td

Figure 3: Connections to the transport network

The main part of external as well as urban transport is realised by car and buses. Most popular are minibuses on eight city lines which are working between the centre of the city and the residential areas. The surrounding area is connected by 2 bus lines (No. 5 and 6) to the public transport. The





main traffic of Cahul is concentrated on three streets in the city. For the future, it is planned to relieve the city centre of traffic by a ring road and by broadening of main traffic roads.



Figure 4: Main roads and public transport in Cahul

2.2 Socio-economic profile and trends

Population:

Since 2002 the population of Cahul has decreased from 41.5 thousand to 39 thousand. Starting from 2011, the population has stabilised at approximately 40 thousand. Approximately 125,000 inhabitants live in the region of Cahul.





Figure 5: Population in Cahul



Table 1:	Population	forecast for	Cahul
----------	-------------------	--------------	-------

		2011			2016			2021			2026	
age categ.	total	m	w									
1	2	3	4	5	6	7	8	9	10	11	12	13
00-04	1.831	972	859	1.855	946	909	2.041	1.041	1.000	1.918	978	940
05-09	1.960	965	995	1.805	956	849	1.830	931	899	2.012	1.023	989
10-14	2.889	1.458	1.431	1.960	965	995	1.804	955	849	1.829	930	899
15-19	5.355	2.551	2.804	2.885	1.454	1.431	1.956	962	994	1.802	953	849
20-24	3.824	1.750	2.074	5.346	2.545	2.801	2.880	1.451	1.429	1.953	960	993
25-29	3.015	1.526	1.489	3.818	1.748	2.070	5.339	2.543	2.796	2.876	1.450	1.426
30-34	2.696	1.291	1.405	3.008	1.522	1.486	3.809	1.743	2.066	5.326	2.536	2.790
35-39	2.523	1.137	1.386	2.694	1.283	1.411	2.990	1.505	1.485	3.940	1.793	2.147
40-44	3.372	1.550	1.822	2.509	1.119	1.390	2.744	1.294	1.450	3.073	1.532	1.541
45-49	3.119	1.378	1.741	3.332	1.506	1.826	2.541	1.114	1.427	2.805	1.301	1.504
50-54	2.952	1.310	1.642	3.037	1.326	1.711	3.325	1.486	1.839	2.562	1.110	1.452
55-59	1.701	772	929	2.779	1.198	1.581	2.946	1.250	1.696	3.254	1.413	1.841
60-64	1.441	649	792	1.565	680	885	2.562	1.056	1.506	2.826	1.145	1.681
65-69	1.140	422	718	1.270	550	720	1.382	577	805	2.264	895	1.369
70-74	846	312	534	955	337	618	1.059	439	620	1.153	460	693
74-79	622	191	431	398	107	291	453	116	337	489	151	338
80-84	263	71	192	394	112	282	254	63	191	289	68	221
85-89	151	36	115	134	27	107	200	43	157	130	24	106
Total	39.700	18.341	21.359	39.637	18.381	21.256	40.115	18.569	21.546	40.501	18.722	21.779

Labour force:

Cahul's potential is characterised by a developed production, trade and agriculture sector. Food production and textile constitute major manufacturing industries. The potential labour force aged 16+ in Cahul comprises more than 27 thousand people – within an area of 15 km from Cahul 35 thousand people and within an area of 15 to 30 km more than 50 thousand people.



Table 2: Age structure of the population

Age structure of the population		2006	2011	2016	
Population up to the working age (0-15 years)	thousands of people	8,8	7,4	6,7	
Employable population 16-56 years old women and 16-61 years old men	thousands of people	33,5	27,2	27,9	
Population above the working age	thousands of people	5,6	4,6	5,1	
in %					
Population up to the working age	%	18,3	18,82	16,8	
Employable population	%	69,95	69,47	70,3	
Population above the working age	%	11,75	11,71	12,9	

Education:

Currently, there are 12 educational institutions in the city, 6 of them are lyceums and two gymnasiums with a total capacity of 7,000 students. The actual number of students is 4,413 or 65% of the total capacity of school institutions. There are 114 students per 1,000 inhabitants.

With respect to training and recruiting, the following institutions are of particular relevance in Cahul:

- State University of Cahul
- College of Pedagogy and Arts
- Technical-Agricultural College
- College of Medicine
- 2 vocational schools.

Within the University there are 3 faculties, 11 chairs with 16 specialties in bachelor studies and 5 master study programmes. The teaching of over 1,500 students is provided by 106 teaching and scientific staff.

2.3 SWOT-Analysis

The purpose of the SWOT-analysis is to identify the key factors that affect the success of the site development project under consideration. The findings which are summarised in the two subsequent tables take into account the profile of the site and the regional context as well as trends and changes in the external environment that could offer potentials or pose risks for the project.

The comparison of strengths and weaknesses, in principle, indicates positive preconditions for attracting a sustainable volume of investment. Key strengths relate to the comparatively large labour force potential, the FEZ status and the public ownership while the high altitude difference which will lead to substantial costs for the levelling of the site constitutes a main obstacle.





Table 3: Strengths & weaknesses of the planned investment site

STRENGHTS	WEAKNESSES
 Cost-competitive labour force at global scale (and wage subsidies – if eligibility criteria are fulfilled) Larger labour force potential than competing locations in the south Presence of university and colleges / vocational schools Tradition in apparel and related industries Incentives offered by FEZ status and integration of experience / capacities of the FEZ management Flexible offer of plots for greenfield projects Public ownership (cost-advantage) Favourable micro-location at the outskirts Regional road next to site, utilities in close proximity Proximity to Romania (and its supplier/customer base) and Giurgiulesti International Free Port (incl. railway connection) 	 High costs for soil works to level the site Deficits of the transport network, distance to main EU markets and manufacturing locations of OEMs Weak manufacturing base, no profile and thus low local relocation and expansion potential Limited supplier base, innovative capaci- ties and size of the local market Limited labour force potential, skills base and catchment area due to location close to the border Incentives less attractive than in compet- ing locations at the international level Limited service-offer at site, lack of rental space

With respect to external factors, the development of the labour force potential and the competitiveness at the macro-level will have a strong impact on the development prospects of the site. The site can benefit from the continuing shift of production to locations in Southeastern Europe. A growing number of relocations from Romania represents another promising opportunity. However, rising salaries and a further decline of the labour force could reduce the attractiveness of Moldova as well as of the site from the perspective of investors.

Table 4: Opportunities & threats for the planned investment site

OPPORTUNITIES	THREATS
 Continuing shift of production to SEE locations Rising labour costs in Romania leading to growing number of relocations Growth of labour force potential due to returning migrants (in particular seasonal workers in Russia) Increasing attractiveness through development of industrial structure, value chains and skills base Improving access to EU markets creating growth and investment potentials Growth of local and regional relocation potential through increasing competitiveness of domestic companies and startups 	 Increasing competition from other exportoriented locations (e.g. Ukraine, Albania, Macedonia) Rising salaries reducing competitiveness and leading to relocations to other countries Declining labour force potential and skills base due to continuing migration Further labour-intensive projects at competing locations in the region reducing the labour force potential Low impact on regional economy due to limited linkages and strong focus on labour-intensive projects

It should be noted that despite the generally positive findings from the SWOT-analysis, the successful promotion of the site cannot be taken for granted. A systematic marketing approach will be required to tap the identified investment potentials.





3 ANALYSIS OF THE INVESTMENT POTENTIAL

The analysis of the investment potential forms the starting point for the assessment of market feasibility. Considering international experience, the demand side needs to be adequately considered in the planning and development process of investment sites. Otherwise, there is a risk that sites are developed that offer promising conditions in principle, but are not able to attract investment projects due to a lack of demand in the target groups addressed. Against this background, this chapter provides a closer look at the relevant investment trends and patterns in order to assess the chances to attract substantial and sustainable investment to the planned site. It identifies from which industries and regions and for which type of activities investment projects are most likely as well as the key needs and location criteria of potential investors in the target groups foreseen. The findings will be validated and refined in the subsequent chapter from the perspective of competition.

3.1 Investment potential at the international level

Taking into account investment promotion experience in Moldova as well as the views expressed by local experts in the interviews, the planned site will most likely have to focus on international investment potentials as they are considered significantly more promising than the regional relocation and expansion potential.

The number of FDI projects attracted by Central and Eastern European (CEE) countries has continuously grown since 2014 according to the latest EY's Attractiveness Survey Europe. In 2016 CEE countries attracted a total number of 1,342 FDI projects, an increase by 16% compared to 2015. The number of manufacturing FDI projects in the CEE region has increased by 15% to 755. With a share of 49%, CEE countries have attracted nearly half of all manufacturing FDI projects in Europe – up from 45% in 2015. In total, 23% of all FDI projects in Europe have been located in CEE countries in 2016. Due to the nature of FDI projects attracted, several Southeastern European (SEE) countries – including Moldova, Serbia, Ukraine and Romania – rank among the top 20 destination countries by FDI job creation in Europe. Overall, the CEE region surpasses Western Europe in the number of FDI jobs created with 135,632 compared to 124,041 jobs.

Most FDI inflows in Europe are cross-border projects by European companies. Driven by the pressure of cost optimisation, manufacturing sites tend to move east to take advantage of lower labour costs, while companies are also investing heavily in shared service centres to enhance efficiency as well as in logistics to reduce delivery times, extend market reach and optimise the flow of goods. Furthermore, SEE is garnering increased interest from Chinese companies investing in a broad range of fields including the manufacturing sector.

Trends differ by sub-regions and sectors. For instance, investors are moving up the value chain in Central Europe establishing more sophisticated service centres and IT operations in countries such as Poland and in the Baltics. At





the same time SEE countries are becoming more attractive for investors in the manufacturing sector looking to take advantage of lower labour costs as labour markets are tightening in the CEE countries closer to the western market that have previously been the key destination for labour intensive manufacturing projects.

On average, 44 jobs have been created per FDI project in Europe in 2016. The share of FDI job creation by sector in Europe is shown in figure 6. The number of jobs created per project differs significantly by sector. While the automotive sector made up 6% of all FDI projects in Europe, FDI jobs created in the automotive sector make up 23% of total FDI job creation in Europe.

Figure 6: Jobs created by FDI projects in Europe by sector in 2016 (EY Attractiveness Survey Europe 2016)



3.2 Regional and local relocation and expansion potential

In comparison to the investment potential at the international level, the regional relocation and expansion potential is considered limited. After the process of structural transformation in light of the liberalisation and privatisation of the Moldovan economy, nowadays, the manufacturing sector plays only a minor role in the regional economy.

The leading manufacturing companies include partly foreign owned Tricon (approximately 500 employees) and fully foreign owned Laboratore Tessile (approximately 400 employees) that are active in the textile and apparel industry. The food industry forms a second focus within the manufacturing sector. Amongst others, a beer brewery, a cheese factory and a plant for bakery products are located in Cahul.

Overall, the regional economy is characterised by small and medium-sized companies and a strong role of agriculture, tourism (e.g. Nufarul Alb Resort) and a broad trade and service industry. A number of vineyards is in operation in the surrounding region – however with a rather low level of value addition.

Against this background, only a small part of the plots to be offered at the planned investment site is likely to be taken up by local and regional reloca-





tion and expansion projects. Based on the findings from the expert interviews, the potential can be estimated at 1 - 3 ha in the medium term. The large majority of local enterprises is lacking the resources for greenfield investment projects and operations in an FEZ. Furthermore, the regulatory and incentive regime is more attractive for larger companies that are integrated into international value chains and that have the capacities to comply with the administrative requirements of the zones.

3.3 Industry-specific investment potentials

The development of investment dynamics, Moldova's track record as well as recent company enquiries and projects in Cahul indicate that there are relevant investment potentials in the manufacturing sector which the planned site can tap.

In particular, in labour-intensive fields, such as wiring harnesses or cut and sew operations, major projects were recently realised by foreign investors in other parts of Moldova and one major project of this type is currently being implemented in Cahul.

At the same time, the labour force potential represents a limiting factor for attracting investments to the site. According to the interviews, the current investment project by the German automotive supplier DräxImaier could create up to 4,000 jobs (in case of a second phase). Although this project will definitely make an important contribution towards local and regional development, it will also significantly reduce the labour force and investment potential for the planned site. In the short and medium term, chances to attract a further large-scale investment project in the field of wiring harnesses or cut and sew operations are considered rather low.

Against this background, promising investment potentials can be identified in particular in manufacturing industries that are characterised by a lower labour-intensity (see table 5 on the next page) – compared to the activities mentioned above – but still a strong role of cost-driven investment decisions. These fields include, in particular:

- metal, mechatronic and plastic components and products for the automotive as well as further application markets
- wire production
- · assembly of trailers and agricultural equipment
- agro-processing and food production
- furniture and construction materials.

In addition, in the interviews, an investment potential has been identified within the textile and apparel industry and related value chains – such as the production of seat covers or parts for the upholstery industry. Based on the findings from the interviews, small or medium-sized projects (100 to 300 new jobs) offer a more promising investment potential in comparison to large-scale projects.

The fields identified can make an important contribution towards the development of value chains and a diversification process at the regional and national level. For instance, manufacturers of metal, mechatronic and plastic





components are quite often active in various application markets, e.g. automotive, furniture, construction materials, medical products. Furthermore, they offer a promising upgrading and skills development potential. The educational environment in Cahul – with its university, colleges and vocational schools – is well positioned to unlock this potential.

The assembly of trailers and agricultural equipment represents an interesting niche in this context, as it combines automated and rather labour-intensive processes, e.g. welding. Synergies could be generated with respect to skills development in other fields. Investors could benefit from the proximity to EU markets and the Arcelor Mittal plant in Galati. At the same time, investment projects require considerable area sizes in relation to the jobs created. For instance, a trailer assembly can take up more than 15 ha for 300 to 500 jobs. Another niche offering a small, but interesting investment potential related to the automotive supply industry is the production of wire. The opening of the Fujikura plant in Comrat could create an investment scenario for a specialised supplier which requires in comparison less workers in relation to the size of the area and investment volume.

Table 5:Labour intensity, skills needs and area required in selected
manufacturing industries and segments

INDUSTRY / SEGMENT	LABOUR INTENSITY	SKILLS NEEDS	AREA REQUIRED
Wiring harnesses	High	Low	Medium
Cut & sew (incl. seat covers)	High	Low	Small-Medium
Metal processing, structures and parts	Medium	Medium	Medium
Assembly of trailers and agricultural equipment	Medium	Medium	Large
Energy technology and electrical appliances	Medium	Medium	Medium
Agro-processing and food	Medium	Low-Medium	Small-Medium

3.4 Identification of key needs of investors

The relevance of different location criteria varies between investment projects depending upon the motive and individual company context. However, there are some common key drivers for investment decisions in the identified target manufacturing industries and segments allowing a number of general conclusions regarding important location decision criteria and, correspondingly, regarding the competitive position of locations aiming to attract investment from those industries and segments.

In most of the cases, investment decisions by international companies in SEE countries are driven by cost-pressure, follow-sourcing and the shift in global demand for their product. Against this background, most location decisions rest mainly on factors such as operating costs, access to customers and markets, logistics and infrastructure as well as the general business and investment climate. Economies of scale are a cross-cutting factor of major





importance in particular when various customers and markets are supposed to be served from a location.

In the interviews with investors and investment promotion experts, the following decisive needs of potential investors were identified:

- (1) **Labour market potential:** As mentioned, requirements with respect to the quantity of workers and the skills profile differ depending upon the industry and type of project.
- (2) **Pro-active and cooperative local government:** Investors consider this aspect in particular in the context of assessing the time and effort needed for the implementation of their project.
- (3) **Road network:** Naturally, requirements are differing also with respect to this criterion depending upon the transport-sensitivity of the products and the markets/customers served.
- (4) **FEZ status:** In particular, for investors that are integrated into international value chains, the FEZ status represents a major benefit.
- (5) **Basic utilities connections and on-site infrastructure in place:** It has been highlighted that the site should be connected to the utilities ("We are happy to go for 100 m to get electricity to our plot, but not 3 km."), the entrance situation should be clear and an access road should be built. Furthermore, it has been pointed out that there should be a clear plan for the development of the site. In the case of an FEZ, the infrastructure for customs should be prepared.
- (6) Needs-oriented plots for investors: The parcelling of the site should allow flexibility with respect to the specific requirements of the investment projects. As mentioned, exceptional projects – such as an assembly of trailers can take up more than 15 ha. The goal should be to ensure the flexibility to accommodate this type of project, while generally anticipating and planning for average sized projects.

Taking into account the findings from the analysis of investment potentials and the needs of investors, table 6 on the next page provides an estimate of the area and labour demand for the development of the planned site in the medium term perspective.

The estimated area taken up by 7 - 10 expected investment projects amounts to 10 - 30 ha. The number of jobs offered by investors on the site is estimated at 1,950 - 2,550. The demand estimates are strongly influenced by the type of investment projects attracted. A single large-scale project with a high area demand – such as the assembly of trailers – raises the overall results significantly.





Table 6: Estimates of area and labour demand in the medium term

INVESTMENT PROJECTS	PROJECTS (No.)	AREA (ha)	LABOUR (Jobs)
 Foreign investment projects in particular in the following manufacturing industries / segments: metal, mechatronic and plastic components and products wire production assembly of trailers and agricultural equipment agro-processing and food production furniture and construction materials agro-processing and food production 	6-7	9-27	1,800-2,100
expansion projects	1-3	1-3	150-450
Total	7-10	10-30	1,950-2,550





4 ANALYSIS OF THE COMPETITIVE ENVIRONMENT

Generally, the scope of an analysis of the competitive environment depends upon the envisaged positioning of an investment site. In this case, as an important role of foreign investment projects is foreseen, the geographic scope of the analysis needs to be widened integrating the perspective of international competition between locations – in addition to the local and regional dimension.

4.1 Competition at the international level

As confirmed by its track record in attracting foreign companies, Moldova, in principle, is in a good position to benefit from the investment dynamics in the manufacturing industry. In the recent past, the competitive position of Eastern and Southeastern Europe has improved vis-à-vis the more mature Central European locations – such as Poland, Hungary, Czech Republic and Slovakia – where investors increasingly face difficulties to find qualified employees and to cope with rising salaries. At the same time, competition between locations in Eastern and Southeastern Europe has intensified. Considering the envisaged target groups in the manufacturing industry, key competitors at the international level include locations in Ukraine, Macedonia, Albania and – for companies seeking a location with a similar profile in the European Union – Romania.

Moldova's key strengths as an investment location for manufacturing projects relate to cost-advantages, particularly the low labour costs which are highly attractive for more labour-intensive operations. Furthermore, investors benefit from the proximity to the markets of the European Union. Moldova's industrial traditions represent another argument of relevance. As in the case of the planned site in Cahul, companies investing in an FEZ can benefit from a range of specific incentives, e.g. tax relief. The FEZ status is an important factor for the promotion of the site as it is well known and received by investors. However, it needs to be taken into account that a number of competitors can offer similar or even more attractive incentives to investors.

The state of the traffic infrastructure in Moldova represents a major challenge limiting the investment potentials that can be tapped at the international level. In the case of Cahul, this is particularly relevant with respect to the road connections to Chisinau and further major locations within the country while the proximity to the Romanian border and Giurgiulesti International Free Port offer benefits to potential investors. Taking into account the location criteria of investors, further challenges relate to the supplier and skills base in Moldova which do not allow a differentiation from competitors. In the case of Cahul, the proximity to the supplier landscape in Romania and the potential of the university, colleges and vocational schools provide opportunities to avoid or mitigate those general challenges.





4.2 Competition at the regional and local level

Competition at the regional level is less intense. There are only a few locations in the region that are well-positioned to attract investments from the relevant target groups.

Based on the findings from the expert interviews, the Free Economic Zones "Taraclia" and "Valkanes" as well the Industrial Park in Comrat can be identified as main competitors for the planned investment site. All competitors offer substantial areas for investment projects. According to MIEPO figures, the areas of FEZ "Valkanes" and "Taraclia" amount to 122 ha and 36 ha respectively. The Industrial Park in Comrat comprises an area of approximately 50 ha. Recently, the first investment project has been attracted to the Industrial Park. The Japanese automotive supplier Fujikura is setting up a wiring harness production creating approximately 1,000 jobs at the initial stage and taking up 3 - 5 ha of land in the Industrial Park.

Figure 7: Competing locations at the regional level (SOURCE: Expert interviews, MIEPO)



The promotion of the planned investment site could build upon a strong competitive position at the regional level. Cahul is by far the largest city in the southern part of Moldova. It has a population (39,500 in 2017) that is much larger in comparison to the competing locations Comrat (26,300), Vulcanesti (16,700) and Taraclia (14,900). Correspondingly, the larger labour force potential represents a key competitive advantage that is reinforced by the presence of a university, colleges and vocational schools. Although the available labour force will be most likely reduced by the mentioned investment project of the German automotive supplier DräxImaier, Cahul can still stand out from its regional competitors with respect to the labour force potential. However, it should be noted that the competitive advantage diminishes if investors also consider locations in the Northern and Central Region, such as Balti and





Chisinau that can offer larger labour pools and stronger industrial structures – however at higher costs.

A further competitive advantage of the planned investment site in Cahul at the regional level relates to the proximity to Romania and the European Union offering access to promising market and sourcing potentials.

The competitive environment at the local level is characterised by a limited offer of sites available for larger investment projects, in particular for green-field projects. MIEPO's database lists only six investment sites in the Cahul district of which only one covers an area of more than three hectares.

OFFERED BY	LOCATION	SIZE
Cahul subzone of the FEZ "Balti"	Cahul	Total area: 16.7 ha
		Area of halls: 17,000 m ²
SA "Melodia"	Rosu	Total area: 2,7 ha
"Tornis-Com" SRL	Cahul,	Total area: 1,6 ha
	Mihai Viteazul Str.	Area of halls: 3,000 m ²
"Cartal" SRL	Cahul,	Total area: 0,9 ha
	Dunarii Str.	Area of halls: 6,000 m ²
"Universul-Sud" SA	Cahul,	Total area: 0,8 ha
	Dunarii Str.	Area of halls: 500 m ²
"Mugurel Verde" SA	Cahul,	Total area: 0,2 ha
	Costache Negruzzi Str.	Area of halls: 1,000 m ²

Table 7: Further sites in the Cahul district

SOURCE: MIEPO database of investment sites

The size of the brownfield FEZ subzone that is listed first in the table above and belongs to a private investor is reduced by the mentioned investment project by Dräxlmaier. It should be noted that this FEZ subzone and the neighbouring site also comprise vacant plots that could be used for greenfield projects. Depending upon the specifics of the project by Dräxlmaier, the remaining offer could still exert to a certain degree competitive pressure on the planned investment site. This would be of relevance mainly for smaller scale investment projects. Still, the planned investment site could differentiate itself through the more flexible offer of plots as well as the public ownership and corresponding cost advantages.

Figure 8: Private FEZ subzone in Cahul

(SOURCE: MIEPO, database of investment sites)







5 ECONOMIC AND FINANCIAL ANALYSIS

Taking into account the findings from the previous stages of analysis, the economic and financial analysis focuses on an initial development phase which encompasses the development, promotion and management of a partial area of approximately 15 ha in total.

The assessment of the economic and financial feasibility comprises the following steps which will be explained in further detail in the sections below:

- · Estimation of capital and operational expenditure
- · Estimation of revenues
- Cash flow forecast and analysis of selected profitability indicators (net present value and internal rate of return)
- Assessment of the contribution towards socio-economic development.

5.1 Estimation of capital and operating expenditure

The estimation of the necessary capital expenditure (CAPEX) forms the starting point of the analysis of the financial feasibility. Table 8 shows the estimates for the main items in constant prices. In total, approximately 40.3 million MDL of capital expenditure are foreseen for the initial phase.

ITEM	SPECIFICATION	CAPEX
	SPECIFICATION	(1.000 MDL)
Soil works / levelling	Removal and transport of top soil (45,000m ³) / excavation, transport, refilling, levelling and compaction (180,000m ³)	17.640
Support walls	2.2m / 2.0m height, 200mm width, 1400x300mm founda- tion, 370m length	2.984
Access road	10m width, 50m length	131
Site entrance	2 zinc coated gates, including electrical drives	360
Electricity	1,000m three-phase electricity line of 10kV, high voltage distribution station for 10kV	1.517
Water	400m polypropylene Dn=160mm	373
Natural gas	300m polypropylene Dn=90mm (underground) P=0.3MPa, gas sparger	558
Wastewater	Collector 27m ³ volume, 350m pipe Dn=159mm, dual pumps for wastewater	725
Fence	Galvanized 5mm steel, height of 2m, length 1,700m in- cluding pillars and concrete foundation	1.275
Internal road network	5m width and 650m length, 10m width and 575m length, asphalt for customs and administration zone	3.892
Video security	25 cameras on perimeter and entrance including registra- tion system and software	660
Street lighting	4 pillars of 8m height with LED luminaires 150W placed near the entrance and customs building	110
Customs & Admin buildings	2 buildings 180m ² and 350m ² for customs/security and ad- ministration/maintenance	5.500
Planning	2.5% of expenditure items above	893
Contingency	10% of expenditure items above	3.662
Total		40.280

Table 8:Estimated capital expenditure (1.000 MDL) for the period2018 - 2022





Soil works constitute the largest item accounting for approximately 40% of the investment costs. It is assumed that the land for the development of the site is provided free of charge by the public authorities. Opportunity costs of the land are not included.

Furthermore, it is assumed that the public entities involved in the development of the site are going to finance the soil works, the off-site infrastructure, the internal road network as well as the fence and lighting system. The resident companies will be expected to cover the costs for connecting their operations to the nearest connecting point of the on-site infrastructure.

It is foreseen that the off-site infrastructure (incl. soil works) and the fence will be set up in 2019 as a first step to support the promotion of the site and to prove commitment in the eyes of investors. The expenses for construction of the buildings for customs and administration are allocated to the year 2020. However, in order to use resources efficiently, those investments should only be initiated once the first (major) investor has been attracted.

The further items are sequenced by year in line with the expected take up of the land by investors. The underlying assumptions are set out in further detail as part of the estimation of the revenues. It is expected that the infrastructure development for the initial phase will be completed by the end of 2022.

ITEM	2018	2019	2020	2021	2022
Off-site infrastructure	0	3.664	0	0	0
Soil works / levelling (incl. support walls)	0	20.624	0	0	0
Fence (incl. video security)	0	1.935	0	0	0
Internal road network (incl. lighting)	0	500	1.001	1.501	1.001
Customs/administration building	0	0	5.500	0	0
Planning	0	668	163	38	25
Contingency	0	2.739	666	154	103
Capital Expenditure (CAPEX)	0	30.130	7.329	1.692	1.128

Table 9:Breakdown of the estimated capital expenditure (1.000
MDL) for the period 2018 – 2022

The estimation of the operational expenditure (OPEX) forms the next step of the financial analysis. Table 10 on the next page provides a breakdown of the estimated operational expenditure in constant prices for the period under review. The total annual operational expenditure foreseen increases from 662,000 MDL in 2019 to 739,000 MDL in 2022.

Maintenance expenses are assumed to be equal to 0.75% of the cumulated capital expenditure. Correspondingly, maintenance expenses increase substantially and constitute the largest expenditure item over the period under review.

Considering the critical importance of investment promotion, marketing expenses form another major expenditure item. Based upon the assumption of a lean organisational model, only one dedicated management position is foreseen for the site. It is assumed that the site can be developed and man-





aged as a subzone of the Free Economic Zone Balti. This model offers promising synergy potentials. Additional expertise can be brought in as needed. Moreover, a close collaboration with the local and regional authorities and further partners (e.g. MIEPO) is foreseen allowing lean structures on the site.

ITEM	2018	2019	2020	2021	2022
Maintenance	0	226	281	294	302
Salaries incl. social contributions	0	86	86	86	86
Marketing and travel	0	200	200	200	200
Other expenditure	0	150	150	150	150
Operational Expenditure (OPEX)	0	662	717	730	739

Table 10:Breakdown of the estimated operational expenditure
(1.000 MDL) for the period 2018 – 2022

The item "other expenditure" mainly relates to further services – such as security and accounting – as well as expenses for ICT and utilities for the management of the subzone.

5.2 Estimation of revenues

The analysis of the financial feasibility also takes into account the revenues generated by the promotion and management of the site. Land sales and leases as well as annual administrative fees and one-time fees for the registration (and for tender participation as well as for the business activity permits) constitute the principal sources of revenue. The revenue performance depends upon the number, size and economic characteristics of the projects attracted. Table 11 summarises the assumptions regarding the number of residents and the land taken up over the period 2018 – 2022.

Table 11:Forecast of the number of residents and the size of land
taken up in the period 2018 – 2022

ITEM	2018	2019	2020	2021	2022
Number of residents	0	1	3	6	9
Land use (ha)	0,0	1,5	4,6	9,2	13,8

On this basis, the revenues have been forecasted as shown in table 12 on the next page. The total revenues which can be generated in the period under review are estimated at approximately 9.7 million MDL.

The annual administrative fees represent the most important source of revenues. Taking into account the findings from the expert interviews and experience from existing free economic zones, it is assumed that one investment project attracted is on average going to generate annual administrative fees of 325,000 MDL.





Table 12:	Breakdown of the estimated revenues (1.000 MDL) for the
	period 2018 – 2022

ITEM	2018	2019	2020	2021	2022
Land lease	0	316	631	947	947
Land sale	0	0	47	95	142
Registration fees	0	41	82	124	124
Annual administrative fees	0	325	975	1.950	2.925
Total revenues	0	682	1.736	3.115	4.138

Furthermore, it is assumed that the investors will initially lease the land plots (at a lease rate of 1.0 EUR) and will buy the land after one year – once the construction has started – for the state norm price of 0.15 EUR. The one-time fees for tender participation, registration and the business activities are calculated at 41,180 MDL per resident. All calculations are based on an exchange rate of 1 EUR = 20.59 MDL.

According to the forecasts, the revenues will increase from approximately 0.7 million MDL in 2019 to 4.1 million MDL in 2022 when all land plots have been taken up by investors. Without additional plots being developed which can be bought or leased by investors, revenues would stabilise after 2023 at 2.9 million MDL p.a.

5.3 Profitability indicators

Having determined the capital and operational expenditure as well as the revenues, this section now assesses the project's financial profitability and sustainability. Cash flow forecasts are used to calculate the financial internal rate of return (FRR) and the corresponding financial net present value (FNPV). Those indicators measure the financial performance independently of the sources and methods of financing.

The financial net present value is defined as the sum that results when the expected capital and operating expenditure of the project (suitably discounted) are deducted from the discounted value of the expected revenues. In line with the recommendations of the European Commission for the programming period 2014-2020, a discount rate of 4% is applied as the benchmark parameter for the opportunity cost of capital in the long-term.

The table on the next page summarises the results for the initial development phase as well as for a 20 year period which represents a typical time horizon for an industrial infrastructure project of this type.

For the 20 year time horizon, a negative net present value (-11.3 million MDL) and internal rate of return (-0,1%) are forecasted indicating that the planned project is not profitable from a financial perspective. This is mainly attributable to the high initial expenditure for the levelling of the site. It should be noted in that context, however, that according to the forecasts, the project is generating a positive cash flow from the fourth year onwards. Those findings indicate that after initial funding (e.g. by a public grant), investments to extend or upgrade the site could be financed in the medium and long term from own resources.





Table 13:	Cash flow forecast (1.000 MDL) and selected profitability
	indicators for the period 2018 – 2037

ITEM	2018	2019	2020	2021	2022	2023
Land lease	0	316	631	947	947	0
Land sale	0	0	47	95	142	142
Registration fees	0	41	82	124	124	0
Annual administrative fees	0	325	975	1.950	2.925	2.925
Total inflows	0	682	1.736	3.115	4.138	3.067
Operational expenditure	0	662	716	727	739	739
Capital expenditure	0	30.068	7.204	1.504	1.504	0
Total outflows	0	30.730	7.920	2.231	2.243	739
Cash flow	0	-30.048	-6.184	884	1.895	2.328

ITEM	2024	2025	2026	2027	2028	2029	2030
Land lease	0	0	0	0	0	0	0
Land sale	0	0	0	0	0	0	0
Registration fees	0	0	0	0	0	0	0
Annual administrative fees	2.925	2.925	2.925	2.925	2.925	2.925	2.925
Total inflows	2.925	2.925	2.925	2.925	2.925	2.925	2.925
Operational expenditure	739	739	739	739	739	739	739
Capital expenditure	0	0	0	0	0	0	0
Total outflows	739	739	739	739	739	739	739
Cash flow	2.186	2.186	2.186	2.186	2.186	2.186	2.186

ITEM	2031	2032	2033	2034	2035	2036	2037
Land lease	0	0	0	0	0	0	0
Land sale	0	0	0	0	0	0	0
Registration fees	0	0	0	0	0	0	0
Annual administrative fees	2.925	2.925	2.925	2.925	2.925	2.925	2.925
Total inflows	2.925	2.925	2.925	2.925	2.925	2.925	2.925
Operational expenditure	739	739	739	739	739	739	739
Capital expenditure	0	0	0	0	0	0	0
Total outflows	739	739	739	739	739	739	739
Cash flow	2.186	2.186	2.186	2.186	2.186	2.186	2.186
Discount rate							4,0%
Net present value							-11.307
Internal rate of return							-0,1%

For the planned project, the most critical variables are the capital expenditure and the administrative fees. The effect of changes of those variables on the project's performance – as measured by the internal rate of return – is shown in table 14 on the next page.

As shown in the table, changes of the capital expenditure and the administrative fees result in considerable deviations of the internal rate of return for the period under review (2018 - 2037). A positive internal rate of return can





be achieved if the administrative fees can be increased by 10% or if the capital expenditure can be reduced while the administrative fees remain unchanged. However, in all cases simulated the rate of return is lower than the discount rate of 4% which is applied as a benchmark parameter.

Table 14:Sensitivity analysis – effects of changes of the CAPEX and
administrative fees on the internal rate of return for the
period 2018 – 2037

		CAPITAL EXPENDITURE				
		-10%	BASELINE	+10%		
ANNUAL ADMINISTRATIVE FEES	-10%	-0,5%	-1,6%	-2,5%		
	BASELINE	1,0%	-0,1%	-1,2%		
	+10%	2,4%	1,2%	0,1%		

5.4 Contribution towards socio-economic development

The planned project will have broader socio-economic and fiscal effects which should be taken into account. Especially public sector organisations should be guided not only by the results of financial analyses, but should also consider other results, i.e. both the external (social) costs and benefits of a project. Against this background, the focus of the analysis is widened in this section beyond the perspective of the future owner of the industrial infrastructure.

The creation of additional direct and indirect employment is considered the principal socio-economic benefit of the project for the region. It is estimated that approximately 2,400 new jobs will be created by resident companies (excluding relocations) and suppliers within the region.

If the benefit from additional employment is integrated into the cash flow forecast and analysis of profitability indicators, the rate of return would significantly improve. Those findings indicate, that the project is effective and desirable from a socio-economic perspective. It should be noted in this context, that the project can also make an important contribution towards reducing and avoiding migration. Workers who have left in the past to work in other parts of the country or abroad can be attracted back to the region.

Additional income for the region can also be generated by the realisation of the off- and onsite infrastructure and the implementation of the investment projects of the residents as local companies will be contracted for part of the construction work.

Furthermore, the following external benefits of the project can be highlighted:

• Additional revenues for public budgets: Those include amongst others corporate and personal income taxes, VAT and social security contributions as well as customs clearance fees. Although resident companies are





likely to benefit from tax incentives or might initially not pay corporate income taxes due to high investment costs, it can be expected that tax revenues from companies outside the subzone will increase also in the shortand medium-term perspective. Furthermore, labour-related taxes and social security contributions both from residents and companies outside the subzone will grow.

- **Savings for public budgets:** Amongst others, savings can be realised as the additional jobs offered by the resident companies result in a reduction of expenses for unemployment benefits.
- **Increasing and diversifying exports:** International experience shows that this type of project can make an important contribution towards fostering exports and developing new international markets.
- Stimulating innovation and entrepreneurship: The development of a needs-oriented industrial infrastructure and the attraction of foreign investment can help promote innovation and entrepreneurship in a region. Developing linkages between resident companies and the regional economy represents a key success factor in this context. A main focus should be on developing and upgrading value chains.





6 DEVELOPMENT CONCEPT

6.1 Phased approach

Against the backdrop of the results of the different stages of analysis, a phased development approach seems advisable. Taking into account the estimates of area and labour demand, it seems advisable to start with a first phase comprising approximately 15 ha. The cash flow forecasts indicate that, after initial funding, future investments for an expansion or upgrading of the site could be financed from own resources – which are mostly generated from annual administrative fees.

A phased approach helps reduce the risks and burden for the public budgets. Depending upon the performance and the development of external factors a next phase could be initiated which could also take into account the lessons learnt during the first stage. A key prerequisite for the proposed phased approach is that the land for the proposed project as well as for future expansions remains in public ownership.

6.2 Infrastructure and configuration

In order to use resources efficiently, it is recommended, to set up the off-site infrastructure (access road and connection of the site utilities), levelling of soil and the fence as a first step to support the promotion of the site and to prove commitment in the eyes of investors. The subsequent investments (on-site infrastructure, buildings for customs and administration) should only be initiated once the first investor(s) have been attracted. In this context, the aim should be that resident companies cover the costs for connecting their operations to the nearest connecting point of the on-site infrastructure.

The proposed development model builds upon the findings from the interviews with investors and investment promotion experts which highlighted, that ...

- the site should be connected to the utilities ("We are happy to go for 100 m to get electricity to our plot, but not 3 km.")
- the entrance situation should be clear
- the land plot should be levelled
- there should be a clear plan for the development of the site.

The subdivision and parcelling of the site should allow flexibility with respect to the specific requirements of the investment projects. The proposed subdivision and configuration which is outlined in figure 9 on the next page is aligned to the needs of the defined target groups:

- Small-scale investment projects (<300 employees) are expected to request plots of approximately 1 ha.
- Medium-sized investors (300-750 employees) are expected to request plots of approximately 2 ha.
- It is assumed that large-scale projects (more than 750 employees) take up plots of approximately 4 ha.
- Furthermore, two adjacent plots can be merged to cater for individual needs.





The zone is equipped with a territory for customs procedure, administration and security services and a territory for main technical facilities. In the infrastructure zone, the main handover point for all facilities are located. From here, the internal networks are starting to the land plot of the investors. All external connection to the networks from the service providers are starting from the infrastructure zone.

The routes of the distribution networks on the site should belong to the main road of the zone and enter the plots from the secondary roads. Each plot has access from minimum 3 sides: from the main road of the site and from 2 (or 3) secondary roads. The whole territory is fenced and controlled by video surveillance. Street light is foreseen for the main road of the site.



Figure 9: Layout plan





Table 15: Size of available plots

PLOTS	SIZE (ha)
Administration, customs, security	0.3
Infrastructure	1.0
Roads	0.9
Small investment projects (4 x 1ha)	4.0
Medium-size investment projects (2.0 + 3.7 + 4.1ha)	9.8
Total	16.0

The following network routes from the infrastructure zone are foreseen:

- Water: 350m, north-western direction
- Gas: 260m, north-western direction
- Power: 1,000m, southern-eastern direction
- Sewage: 420m, north-western direction
- Road: 50m, north direction.

The nearest possible connection to the handover points has been chosen for the feasibility study.

Figure 10: External connection to the main networks



In a later stage, depending upon the performance with respect to attracting investment the zone could be extended in the southern direction as extension of the planned site and if it necessary in eastern direction in two steps: 7ha and 17ha.













6.3 Promotion of the planned site

The recommendations regarding the promotion of the planned site are based on the following guiding principles:

- (1) Joint approach in cooperation with relevant stakeholders: Whenever possible, investment promotion activities should be implemented in close collaboration with strategic partners and intermediaries to utilise synergies and maximise the impact. The planned brand book provides a promising opportunity for joint marketing efforts of FEZ.
- (2) The regional context matters: In the investment decision process of companies, the regional context plays a decisive role. The search for a new location typically starts at the regional level. Furthermore, most location criteria entail a strong regional component, e.g. the labour market potential. Against this background, the regional context should be fully integrated into the argumentation and marketing efforts.
- (3) All activities and measures are consistently target-group-oriented: Experience indicates that targeting increases the investment attracted in a competitive landscape. A target-group-oriented approach supports an efficient use of resources and a convincing argumentation.
- (4) Promoting business opportunities rather than locations: The promotion of the planned site should take into account the perspective of investors. It should be noted that investors are not looking for locations, but for business opportunities. Therefore, the focus should be on highlighting the specific benefits and opportunities offered by the location rather than describing the location features in detail.
- (5) Investment promotion is a long-term activity: Only a small proportion of companies is actually looking for new locations – in particular at the international level. It also takes a considerable amount of time from the initial decision by a company to search for a location until the finalisation of the process. Decision periods of more than two years are not uncommon. A systematic follow-up and building long-term relationships represent key success factors in this context.

Taking into account those guiding principles, the recommendations on the promotion of the planned site which are set out in the subsequent sections focus on the three areas (1) target groups, (2) messages and (3) instruments and activities.





Target group definition:

Drawing from the results of the analysis of the site, of the investment potential and the competitive environment, the initial focus of investment promotion efforts should be on the following product groups and activities:

- Metal, mechatronic and plastic components and products for the automotive as well as further application markets (e.g. seat structures, switches, sensors, window regulator and control components, plastic components for wire harnesses, fluid and air flow system)
- Wire production (e.g. wires for wire harnesses, elevators, transformers and further industrial applications)
- Assembly of trailers and construction machinery (e.g. platforms and tarpaulins, low loaders, semi-trailer dumpers, load securing, wood transport, waste disposal and special solutions)
- Agro-processing and food production (e.g. fruit and vegetable juices, frozen bread, rolls and pastries, milk and cream products, meat products, meat-based convenience products)
- Furniture components and construction materials (e.g. upholstery products, metal parts such as profiles, window frames etc.).

The figure on the next page operationalises and illustrates the target group definition on the basis of exemplary company profiles which can be used to identify further companies for the promotion activities.

Across the different product groups, the focus should be on companies which have already established (first) operations abroad. Initially, there should be particular emphasis on the German-speaking countries as well as China and Turkey. The size and internationalisation pattern of the relevant industries in those markets indicate a promising investment potential.

Defining target groups is a dynamic process. The target group definition should be regularly reviewed taking into account the results achieved, changes in investment trends and a continuous upgrading of the definition with respect to the value addition and technology and capital intensity of the target groups.

Target-group-specific messages:

As part of the process of designing and producing the marketing materials for the planned site, the marketing theme and messages should be refined and finalised. The marketing theme addresses the general differentiating position issues. The target-group-specific messages relate to the location features which provide specific benefits to the target groups and which stand out compared to competing locations. The marketing messages are derived considering that investors generally respond to specific (profitable) business opportunities. Furthermore, they take into account, what is driving the investment plans of the target groups, so that the appropriate sales triggers can be used.





Figure 12: Operationalisation of the target group definition with exemplary company profiles

Metal and plastic components, wire products	 Kostal Group (www.kostal.com) Family-owned manufacturer of plastic, electronic and mechatronic components based in Germany More than 17,000 employees and revenues of 2.4 billion EUR
	 Active at 46 locations in 21 countries on 4 continents Recent investments/expansions in Macedonia and Bulgaria
	 Titgemeyer Group (www.titgemeyer.de) TITGEMEYER^(TP) One of the leading fastening technology companies with head- quarters in Germany and approximately 500 employees Production plants in Germany, the UK and Czech Republic Strong recent investment track record with takeovers in the UK and Turkey
	 Lapp Group (www.lappkabel.com) Leading German manufacturer of cables, wire products and conductors for the automotive and further industries 3,440 employees at 17 production sites and 140 national sales companies and representations Recent investments in production sites in India and China
Assembly of trailers and con- struction machinery	 Kögel (www.koegel.com) German manufacturer of commercial trailers, system solutions and load securing with facilities in Germany, Czech Republic and Russia, Bulgaria, Spain and Portugal 1,000 employees and revenues of 395 million EUR Recent investment in a competence center in Germany
	 MEILLER Group (www.meiller.com) Specialist for manufacturing tippers and container systems for building logistics based in Germany with 2,000 employees Nine locations in seven countries, amongst others plants in the Czech Republic and Poland Consequent expansion strategy over the last 20 years
Agro-processing and food production	 Eckes-Granini (www.eckes-granini.com) German producer of branded fruit juices with 1,600 employees and revenues of 890 million EUR 12 plants in Europe (e.g. Romania, Lithuania and Hungary) Continuous expansion strategy: recent takeover of juice manufacturers in Denmark and Austria
	 DEH (www.entrup-haselbach.com) Family-owned producer of frozen bakery goods from Tetrahlbackwaren Germany with more than 290 employees Long history of labor-intensive production in Eastern Europe: has been producing pastries and boiling pastries in a Hungarian facility since 1992
Furniture compo- nents and con- struction materials	 POLIPOL Group (www.polipol.de) One of the leading upholstered furniture manufacturers in Europe Based in Germany with over 5,300 employees Continuous investment and expansion of its production plants in Poland as well as Romania
	 Alumil Group (www.alumil.com) Internationally recognised company in the area of architectural aluminium systems based in Greece 1,900 employees and 18 factories, thereof 6 abroad Recent investments in production sites amongst others in Albania, Bosnia, Serbia and Bulgaria





From today's perspective, the marketing theme should contain the term "Free Economic Zone", as it is well known and received by investors highlighting a distinctive combination of strategic benefits, such as tax and duty exemptions, streamlined administrative processes and modern facilities. Furthermore, the theme should integrate the university environment and the hub function as further differentiating elements, e.g. "Free Economic Zone Cahul: Where an aspiring manufacturing hub and university town meet". Investors associate the presence of a university with benefits regarding the recruitment and innovation activities. The hub function relates to the proximity to the border and Giurgiulesti International Free Port offering logistical advantages. Those benefits could be taken up by the target-group-specific marketing messages.

Taking into account that optimising costs and follow-sourcing form the key investment driver within the spectrum of target groups, the following main sales triggers can be derived:

- Competitive operating costs (in particular with respect to labour costs and land prices) and incentives offered by FEZ status (e.g. tax and duty exemptions)
- (2) Skilled and productive labour force benefitting from the attractive recruitment and cooperation potential offered by the local university, colleges and vocational schools
- (3) Fast-track implementation of investment projects due to needs-oriented FEZ services / infrastructure and an experienced zone management
- (4) Logistical advantages due to proximity to Romanian border and Giurgiulesti International Free Port
- (5) Preferential access to EU and key international markets.

Those sales triggers form the base for the target-group-specific messages – e.g. in cover letters for lead generation campaigns or individual presentations.

Marketing instruments and activities:

Taking into account international experience in promoting investment sites, in the following sections potential measures and activities are outlined focusing on the three areas:

- Marketing materials (e.g. brochures & fact sheets)
- Image building (e.g. online presence, regional PR activities, events)
- Lead generation (in particular in the context of relevant trade fairs and events).

As mentioned above, investment promotion activities should be implemented – whenever possible – in close collaboration with strategic partners and intermediaries. Especially with regard to attending trade fairs and other supra-regional and international activities, initiatives should be coordinated with relevant partners in order to utilise synergies and avoid the doubling of efforts.





To prepare the implementation of marketing activities, a basic set of targetgroup-specific marketing materials should be developed. This includes a brochure / exposé as well as a fact sheet. The brochure / exposé can be used amongst others for events (e.g. conferences, delegation visits), individual meetings, site visits or follow-up activities. It should highlight the key messages and location-specific advantages for the targeted investor groups. The fact sheet should summarise the key messages and information from the brochure and should be developed in particular for lead generation campaigns, trade fairs or events as a hand-out.

Considering the early development stage of the site, a format that allows flexible updating, adaptation and individualisation is recommendable. The design should be aligned to the planned brand book for FEZ. The brochure / exposé should contain the following:

- A regional classification of the investment site, if possible with distances to major hubs within Europe and important transport links
- Wider development objectives of the site including target groups
- Convincing business scenarios building upon location-specific advantages (e.g. available labour force, industrial traditions, incentives)
- A location / layout plan pointing out different land plots and construction phases and, if applicable, a bird's-eye view or 3D illustration of the site for a better visualisation
- Technical specifications of the site, including amongst others area sizes of land plots, building specifications, utility connections, infrastructure for customs
- Profiles of successful investment projects should be added as soon as possible
- Contact information of key personnel and a list of relevant regional institutions that facilitate the investment process.

Excerpts from exemplary brochures / exposés are shown on the next page.

In order to raise awareness for the new investment site, a number of image building measures can be carried out. This includes the development of an online presence as well as regional PR activities and events.

A convincing online presence is a critical component of targeted investment promotion, as today an online search and website visit are often an investor's first introduction to a new potential site. The more relevant information is provided, the more likely potential investors are to engage further. In this sense, a website allows potential investors to find all information they need in one place. Providing useful target-group-specific information online, shows potential investors that the management and authorities understand their needs and demonstrates competence. Dedicated contacts displayed on the website provide a natural point of entry for potential investors to engage with the staff directly.





Figure 13: 3D-Illustration of Rzeplin Industrial Park (Poland) (http://invest-in-wroclaw.pl)



Figure 14: Brochure iPark (Ukraine) (http://ipark.info)



In order to generate synergies, it might also be an option to embed a microsite on an existing website of a relevant partner, e.g. MIEPO, FEZ Balti or a joint platform of FEZ. This way potential investors who are already interested in the region, can easily find information on the planned site.





Key information that should be provided by the micro-site or website includes:

- General information on the investment site and location
- Target-group-specific benefits and investment opportunities
- · Visualisation of the planned layout and infrastructure
- Support services offered for potential investors
- Profiles and contact information of key personnel
- News section with information on new developments and activities at the site
- Links to relevant partners and institutions (e.g. MIEPO)
- Brochure / exposé and fact sheet for download.

Figure 15: Website of Kaunas Free Economic Zone (Lithuania) (http://ftz.lt/)



In addition to the micro-site or website, the use of social media platforms also represents a viable option. Twitter accounts are the most commonly used social media channel in investment promotion. A twitter account could be used to post regular updates on activities and developments, e.g. announced investment or expansion projects, events and trade fair visits, new service offers etc. By connecting the account with intermediaries such as investment promotion agencies, industry associations and other target group relevant organisations, a network of relevant followers can be developed. However, a considerable amount of time and a high level of dedication would be needed. Daily posts are necessary to keep an active and relevant profile. A twitter schedule is advisable to plan, organise and monitor the topics and messages.

PR activities should focus on the regional and national level. As there is an ongoing trend for international companies which have already established plants in Moldova to invest in additional locations, the placement of informative articles on developments and activities at the site in regional and national newspapers as well as newsletters of trade associations and chambers of commerce are a good way to reach also this target group.

In order to raise awareness and improve the image of Moldova as an investment location, it could be considered to complement PR activities by placing





adverts in collaboration with strategic partners (e.g. as a joint initiative of FEZ).

Events should only be organised in cooperation with relevant stakeholders as they are cost-intensive and only effective if a sufficient number of target companies can be reached. In order to share costs and reach a sufficient scale, a joint investment forum could be carried out together with MIEPO and other relevant FEZs. Another effective opportunity to raise awareness is utilising events of intermediaries (e.g. meetings or workshops of industry associations or chambers of commerce) as a platform for presentations on the planned site.

Furthermore, a key focus of marketing activities should be on pro-active lead generation campaigns in close collaboration with partners – such as MIEPO. Lead generation campaigns should be carried out in particular in the context of relevant trade fairs or events. Taking into account international experience, targeted lead generation has proven to be the most effective investment promotion approach. The objective is to generate quality business leads of investors who otherwise would not have considered the location and to secure a greater quantity and quality of investment projects through relationship-building and effective facilitation. All lead generation activities should be aligned to the defined target groups.

Attending trade fairs can be an effective way to gain industry intelligence and get in touch with potential investors. Lead generation campaigns ahead of trade fairs serve to identify potentially interested companies which are in attendance and set meetings accordingly. Obtaining a booth is not necessary for a successful trade fair visit, as experience shows that potential investors are not likely to just stop by the booth and that "Walking the floor" and seeking out target companies is a more promising networking technique. Meetings at trade fairs are a promising opportunity to quickly assess whether a company has genuine interest in the site.

A list of relevant trade fairs for the identified target groups is provided in the table on the next page. In the medium term, it could be considered to integrate property developers which could be involved in an expansion or upgrading of the site into the target group mix utilising trade fairs at the regional and international level (e.g. MIPIM and Expo Real).

Generally, the implementation of lead generation campaigns should cover the following process:

- Identification and profiling, address research: The target companies should be identified according to the target group definition. Appropriate sources include directories of international trade fairs, of relevant trade associations or commercial databases. The profiling of the companies should focus on the size and growth as well as the investment pattern. The relevant decision makers should be identified either in the directories or via phone. The company profiles should be entered into a contact database which supports a systematic follow-up.
- 2. Sending out individualised contact packages: Individualised contact packages should be prepared and sent out. The packages should consist of a personal cover email for the most promising contacts a cover letter





– and the fact sheet as an attachment. The letter and emails should be personalised to avoid the impression of mass mailings. For the most promising target companies, individual letters should be drafted drawing from information from annual reports or media analyses, e.g. referring to announced investment plans in emerging markets etc.

Table 16: Relevant trade fairs

Trade Fair	Main Focus	Exhibitors	Visitors
Z Internationale Zu- liefermesse 02/2019 Leipzig, Germany	Parts and compo- nents (e.g. metal, plastic) for the auto- motive and further industries	362 exhibitors from 20 countries, 26% foreign	9,950 (2017)
K 10/2019 Düsseldorf, Germany	Plastics and rubber	3,300 exhibitors from 61 countries, 46% foreign	232,000 (2016)
IZB International Suppliers Fair 10/2018 Wolfsburg, Germany	Automotive supply industry / metal components	800 exhibitors from 32 countries	49,800 (2016)
Global Automotive Components and Suppliers 06/2018 Stuttgart, Germany	Automotive supply industry / metal components	350 exhibitors from 25 countries	3,000 (2017)
Wire 04/2018 Düsseldorf, Germany	Wire and cable	1,335 exhibitors from 53 countries, 77% foreign	38,200 (2016)
bauma, 04/2019, Mu- nich, Germany	Construction ma- chinery, commercial vehicles for con- struction	3,425 exhibitors from 58 countries, 62% foreign (e.g. Austria, Switzerland, Italy, France)	583,000 (2016) from 200 countries
IAA Nutzfahrzeuge 09/2018 Hannover, Germany	Commercial vehicles	2,000 exhibitors from 52 countries, 61% foreign (e.g. China, Italy, Nether- lands, Turkey, France)	250,000 (2016)
Anuga 10/2019 Cologne, Germany	Food and beverages	7,400 exhibitors from 102 countries, 90% foreign	165,000 (2017)
SIAL 10/2018 Paris, France	Food and beverages	7,000 exhibitors from 109 countries, 85% foreign (e.g. Italy, China, Spain, Turkey, Belgium)	155,700 (2016)
Interzum 05/2017 Cologne, Germany	Furniture production and interiors	1,732 exhibitors from 60 countries, 79% foreign	69,000 (2017)
FURNICA / SOFAB 09/2018 Poznan, Poland	Furniture manufacturing / Up- holstery fabrics and components	150 exhibitors, 47% foreign	15,000 (2016)

SOURCE: AUMA trade fair database





- **3. Systematic follow-up:** A systematic follow-up (via telephone / email) should be carried out 8-10 days after the packages have been sent out. The companies' interest in relevant investment projects should be validated or stimulated. Depending upon the context of the lead generation campaigns, meetings at trade fairs or in-house meetings should be arranged. A key objective of the follow-up relates to building up a personal relationship to the decision makers. The contact database should be updated (in particular next steps agreed with the companies).
- 4. Sending out additional information material: Depending upon the feedback and information needs of the companies, additional information material should be sent out (e.g. the target-group-specific presentation, investors' guide). An additional follow-up should be carried out to identify further needs and the status of the location decision process. The contact database should be updated accordingly.
- 5. Meetings at trade fairs, site visits, in-house presentations: In line with the needs and interest identified, meetings, site visits, and in-house presentations should be prepared and organised. Additional research on the companies and the areas of interest should be conducted. The target-group-specific presentation should be aligned to the specific needs of the investors.
- 6. Systematic customer relationship management: A systematic followup and customer relationship management is a key success factor for winning the actual projects. Often it takes months and years until a target company actually implements a relevant investment project. Regularly, further information should be sent out (e.g. information on investments by other companies etc.). Follow-up visits should be conducted – for instance at trade fairs.

6.4 Organisational and financing model

International experience shows that an efficient organisational and financing model constitutes a major success factor for planning, developing and operating an industrial site.

In order to reduce the burden on public budgets, a lean organisational model is recommended. As proposed in the interviews and stakeholder consultations, it should be considered to develop the site as a subzone of the FEZ Balti. This model offers promising synergy potentials and allows to benefit from the wide spectrum of relevant experience of the FEZ administration and thus to avoid redundancies.

A main focus of the FEZ administration could be on the following management and development functions:

- Coordinating the planning and implementation process for the preparation of the land and the development of the infrastructure and facilities
- Coordinating the maintenance of the on-site and relevant off-site infrastructure ensuring effective operation of the infrastructure and utility networks in line with the needs of the residents





- Investment promotion and facilitation, acting as a single point of contact for investors
- · Registration of residents
- Developing a network of service providers to offer access to the full range of business development services in the region/country and to integrate the site into the regional economy
- Enlisting partners' support and sourcing funds in order to finance the development of infrastructure and facilities.

At the same time, it is of crucial importance that key partners – such as local and regional authorities – and their expertise are integrated to fully unlock the potential of the site for regional development. In order to ensure a high level of cooperation and coordination, it is advisable to establish a task force or steering committee in which all relevant stakeholders are represented.

Based upon a joint initiative approach, this body could serve as a platform to jointly define strategic objectives as well as operative measures for the development and promotion of the site. Amongst others, the task force / steering committee could agree upon an integrated development plan for the site. Furthermore, it could help coordinate the delivery of complementary services, such as:

- Networking platforms
- · Internationalisation and further business development services
- Infrastructure development services
- Promotion of the location and region
- Skills development
- Customs service.

So-called dispersed organisational models are quite commonly used around the globe for the development and operation of industrial sites. In contrast to the integrated model which is characterised by one designated entity being tasked with all functions, in dispersed organisational models functions are performed by different entities cooperating closely with each other.

Figure 16: Exemplary dispersed organisational model



The financing model should also reflect the joint initiative approach mentioned above. In principle, the following main sources of finance for site development projects can be identified:

- International grants or loans (e.g. EIB loans)
- Contributions from public budgets at the central, regional or local level
- Funds from the budget of the FEZ administration
- Private capital.





Taking into account the size and profile of the planned project, it seems unlikely that international funding can be secured to finance the first development phase. Initial funding – in particular of the land preparation and off-site infrastructure will largely have to be sourced from the budgets of the municipality and raion. In addition, it is recommendable to submit an application for funding to the regional development agency.

As indicated in the financial analysis, it seems realistic in the medium term that the FEZ administration can finance the necessary capital expenditure for extending and upgrading the site from revenues generated – in particular from administrative fees. It should be ensured, that the FEZ administration can retain and reinvest the revenues generated from resident companies. Furthermore, it is proposed that the revenues generated from the sale and lease of land as well are reinvested into the infrastructure development.

In the medium and long term, it should also be considered to involve the private sector in the expansion or upgrading of the site. Integrating private sector expertise and resources can help meet the increasingly sophisticated infrastructure and service needs from investors. In the case of the site in Cahul, this relates in particular to the provision of rental space for industrial investors which plays an increasing role as a differentiating factor. In the short term, it does not seem realistic to find a developer for such type of project, as preference is given to locations with a proven track record of attracting investment.

In the medium and long term, however, opportunities for mobilising private sector resources may arise, once the first generation of residents has successfully realised their projects. Against this background, it should be considered – as already mentioned – to integrate property developers into the target group mix for a second phase utilising trade fairs at the regional and international level (e.g. MIPIM and Expo Real).





7 NEXT STEPS

From an investment promotion perspective, it is vital not only to analyse the feasibility of a site for industrial development but also to ensure planning security for potential investors. Against this background, as a next step, a zoning plan (PUZ) will be developed for the site under consideration building upon the results from the feasibility study.

Based upon a transparent and competitive process, a planning company has been selected to carry out the following tasks:

- Elaborating the preliminary draft zoning plan and explanatory note according to legal requirements as a basis for the early involvement of representatives of public interests (authorities / public utilities / associations) and participation of the public (citizens)
- Elaborating the draft zoning plan and contributing to the involvement of representatives of public interest and participation of the public as well as to the evaluation and balancing of comments and requirements
- Elaborating the zoning plan and the explanatory note for final approval by the municipality / ministry in line with legal requirements.

The project partners seek to ensure that relevant international experience is transferred and integrated into the process of elaborating the zoning plan. Furthermore, synergies with the design of marketing materials and activities will be utilised. Amongst others, it will be considered to adapt plans and supplementary visualisations of the site for investment promotion measures.

Based upon the results and the experience gained as part of this pilot-initiative, GIZ will decide – in close collaboration with the Ministry of Economy and Infrastructure of the Republic of Moldova – upon further tailored support for the three selected investment sites as well as upon a roll-out of a larger-scale programme. This could entail the provision of technical assistance to further locations in the country which offer the potential to attract substantial investment and to create sustainable employment opportunities.