



December 4, 2013

Mr. Dorin Chirtoaca
Mayor General
Chisinau Municipality
83 Stefan cel Mare Bd.
MD-2012
Chisinau
Republic of Moldova

Dear Mr. Mayor General,

Dear members of the Chisinau Municipal Council,

Ref.: District Heating in Chisinau Municipality

We are addressing you ahead of the Municipal Council session to first thank you for the constructive discussions we have had over the past months regarding how the World Bank and the Government of Sweden can contribute to better heating services for the residents of Chisinau, and improved energy security for Moldova. To help Moldova achieve these two goals, the World Bank and the Government of Sweden and the have provided continuous support to the preparation of the major required reforms for the district heating sector. We have also pledged significant financial support for much needed investments and financial viability of the sector. Unfortunately, we have now reached a tipping point regarding whether we are forced to withdraw our financial and technical assistance support, unless the proposed reforms are approved by all stakeholders. The approval by the Municipal Council, in its meeting to be held on Thursday December 5, of the merger of Termocom, CHP-1 and CHP-2 is critical in that regard, and in the comprehensive restructuring efforts.

As you may be well aware, Termocom, Chisinau's district heating company, have had financial issues for the last 20 years, accumulating US\$138 million of debt to Moldovagaz. This debt led to Moldova's gas supplies being cut off during the 2008-2009 heating season, illustrating Moldova's lack of energy security and demonstrating how one district heating company can cause problems for the whole economy and for the residents of Chisinau.

Termocom has been unable to afford the maintenance and rehabilitation work that is needed. As a result, the heating network is deteriorating and Chisinau experiences network breakages 10 times more often than the more modern district heating systems in Europe.

20/1 Puskin St.,
MD-2012, Chisinau,
Republic of Moldova

12 Toma Ciorba St.,
MD-2004, Chisinau

Republic of Moldova



If urgent investments are not made, the chances of a critical breakage in the system and disrupted heating services will be very high. And after years of going through a restructuring process, Termocom is required to be liquidated at the end of the December 2013 – which may lead to severe disruptions in its operations.

The World Bank and the Government of Sweden in 2009 initiated efforts to identify potential solutions to this problem. We have been engaged since then, in consultation with the Government of Moldova, Chisinau Municipal Council, and Mayor General, and other stakeholders, in identifying and supporting viable options intended to help secure the affordable, reliable, and sustainable energy supply needed for Chisinau residents. With this in mind and in response to a request from the Government of Moldova, the World Bank has prepared a US\$40 million investment to ensure continued heating services, increase the efficiency of the district heating system, and mitigate the impacts of the recommended restructuring. Additionally, a World Bank Guarantee of US\$80 million is planned to help Moldova restructure and refinance the debt stock on favorable terms, helping to lower the future risk of gas supply disruptions.

This large volume of resources, which amounts to US\$120 million, is in danger of being lost if a decision concerning the merger of Termocom, CHP-1 and CHP-2 is not taken by the Municipal Council, after an earlier decision by the Government of Moldova concerning the merger of the three entities was approved in the Cabinet Meeting on November 13, 2013. An unreformed and poorly performing district heating system would be a deterrent to further investments in the sector and would put under risk an estimated 160,000 residents of Chisinau who have no alternative source of heating; for these people any disruption in heating service can have serious welfare consequences during the cold seasons.

The World Bank and the Government of Sweden would like to reiterate their readiness to support reforms in the district heating sector. Other development partners are ready to join this effort and help Moldova address its challenges. But the urgency of the matter leaves no other alternative than the cancellation of the US\$20 million in IDA concessional funding and the suspension of the US\$100 million in IBRD funding if a decision concerning the merger of Termocom, CHP-1 and CHP-2 is not taken by the Chisinau Municipal Council in its session of December 5th, 2013.

We hope that you and your colleagues will join in our efforts to protect the welfare of the vulnerable residents of Chisinau, and to rebuild a reliable and efficient energy infrastructure for citizens of Moldova.

Sincerely Yours,



Mr. Abdoulaye Seck
Country Manager for Moldova
The World Bank
Europe and Central Asia



H.E. Mrs. Ingrid Tersman
Ambassador Extraordinary and
Plenipotentiary of the Embassy
of the Kingdom of Sweden to
Moldova

Mr. Dorin Chirtoaca

-3-

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Cc: H.E. Mr. Iurie Leanca, Prime Minister of Moldova
H.E. Mr. Valeriu Lazar, Deputy Prime Minister, Minister of Economy
H.E. Mr. Anatol Arapu, Minister of Finance