

STATE-OWNED ENTERPRISES AS CATALYSTS OF CORPORATE BOND MARKET DEVELOPMENT IN MOLDOVA

DOI: <https://doi.org/10.53486/dri2026.30>

UDC: 334.724:336.763(478)

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Abstract: *This paper examines how state-owned enterprises (SOEs) in the Republic of Moldova can accelerate domestic capital-market development through the issuance of corporate bonds. Building on prior empirical work that identified a mutually reinforcing relationship between SOE reform and capital-market reform in Moldova, the article develops a deeper policy and market-design framework focused on corporate bonds. The analysis combines Moldova-specific financial and institutional evidence with international experience from state-owned and state-controlled issuers, including Baltic energy utilities, Singapore's Temasek, Chile's Codelco, France's EDF, and Central and Eastern European energy transition bond issuers. The paper argues that SOE bond issuance can be an effective market-development instrument when four conditions are met: commercially credible issuers, transparent ownership and governance, disciplined project selection, and a predictable issuance and post-issuance disclosure regime. For Moldova, SOE bonds could help diversify financing away from bank lending, lengthen maturities for infrastructure and utility investment, improve the public accountability of large SOEs, and crowd in private issuers by creating benchmarks, investor familiarity, and intermediation capacity. The paper estimates that the initial group of financially stronger SOEs identified in previous work has a theoretical issuance potential of approximately MDL 5.1 billion, a scale large enough to materially increase the supply of domestic securities if implemented gradually and with safeguards. The proposed roadmap recommends a sequenced pilot programme anchored in one or two investment-grade-like SOEs, mandatory independent audit, use-of-proceeds discipline, credit-risk assessment, public disclosure, exchange listing, central securities depository settlement, and a post-issuance monitoring framework.*

Key words: *state-owned enterprises; corporate bonds; capital market development; corporate governance; financial intermediation*

JEL: L32, L51, L53.

Introduction

Moldova faces two structural constraints that are usually treated separately: an extensive but weakly performing SOE sector and a shallow capital market with few issuers, few instruments and limited liquidity. The policy opportunity is to connect them. Selected SOEs can issue corporate bonds to finance commercially viable investment projects, while the domestic market gains larger and more recognizable instruments. This paper describes the opportunities and prospects of SOEs to issue corporate bonds in Moldova as a precondition for boosting the domestic capital market.

The relevance of SOE bonds is particularly strong in small bank-dominated economies. Investors cannot learn to price corporate risk without credible issuers; intermediaries cannot build underwriting capacity without transactions; and regulators cannot refine disclosure standards if issuance remains marginal. SOEs can help overcome this coordination problem because some have scale, recognizable brands, stable cash flows and public-policy relevance. Yet public ownership is not a guarantee of credit quality. If governance is politicized, tariffs are distorted, public-service obligations are unfunded or debt is assumed to be implicitly guaranteed by the state, SOE bonds may create fiscal and reputational risks instead of market development.

The central research question is therefore not whether SOEs can issue bonds, but under what conditions they should do so. The paper answers four questions: what international practices are most relevant; what advantages bonds provide to the Moldovan SOE sector; how issuance can affect capital-market development; and what procedures SOEs should follow. The contribution is both analytical and operational. It links financial-development theory, OECD and World Bank SOE governance principles, international issuer practice and Moldova-specific evidence into a practical issuance roadmap.

Literature and analytical framework

The finance-and-growth literature shows that financial systems support growth by mobilizing savings, producing information about investment opportunities, monitoring managers, allocating capital and facilitating risk management (Levine, 2005; Beck, Levine and Loayza, 2000). In bank-dominated systems these functions are performed mainly through credit. A deeper system also needs securities markets. Government bonds establish a yield curve; equities support risk-sharing and corporate control; and corporate bonds provide market-based debt finance that can lengthen maturities, reduce dependence on collateral-based loans and create observable prices for credit risk. Corporate bonds are especially relevant for infrastructure and utility investment because project benefits often mature more slowly than bank loan tenors. A bond converts a bilateral lending decision into a standardized instrument that can be purchased by households, banks, insurers, investment funds and other institutional investors. It also creates a public credit story: audited accounts, risk factors, use of proceeds, repayment sources and continuing disclosure. These requirements can improve governance when the issuer expects repeated market access.

SOE governance literature adds a second dimension. The OECD Guidelines on Corporate Governance of State-Owned Enterprises and the World Bank SOE toolkit emphasize clear ownership rationales, separation of ownership, policy and regulatory functions, professional boards, competitive neutrality, transparency, internal controls and performance monitoring. Bond issuance can reinforce these principles because investors will not finance opaque companies indefinitely. However, bonds may also create quasi-sovereign moral hazard. Investors may price SOE debt as if the state will rescue the issuer, even when no legal guarantee exists. Best practice therefore requires explicit disclosure of guarantee status, public-service obligations, tariff rules, related-party transactions and fiscal-risk monitoring.

The analytical framework used here is a five-stage SOE bond development chain. First, the state selects SOEs with eligible legal form, moderate leverage, reliable cash flows and commercially credible projects. Second, selected SOEs upgrade governance, audit, disclosure and investor relations before issuance. Third, bonds are structured as simple use-of-proceeds instruments compatible with project cash flows. Fourth, securities are publicly offered, settled through the central securities depository and listed on a transparent venue. Fifth, successful issues create demonstration effects: investors learn corporate credit, intermediaries learn underwriting, and private issuers become more likely to use the market. The developmental target is not maximum issuance; it is credible, sequenced issuance that builds trust.

Moldova: SOE and capital-market constraints

The previous research (Lupusor and Stratan, 2024) documented a paradox in Moldova. SOEs and joint-stock companies with majority state participation controlled about 11.7 percent of corporate assets in 2022, but generated only around 2 percent of corporate sales and 0.7 percent of corporate profits, while holding about 9.9 percent of corporate debt. Profitability and liquidity were generally weaker than in the private sector, although solvency indicators showed that not all SOEs were distressed. This distinction matters: the obstacle is not only debt capacity, but the low efficiency with which public assets are converted into revenue, profit and investable cash flow.

The same analysis identified a smaller group of SOEs with stronger balance sheets and lower leverage that could be considered as potential frontrunners after updated due diligence. They include

Moldtelecom, Energocom, RED Nord, Barza Alba, Tracom, Arena Nationala, Loteria Nationala a Moldovei and, subject to profitability improvement, Franzeluta. Their indicative theoretical bond-issuance potential based on 2022 balance-sheet constraints was about MDL 5.1 billion. This figure should not be treated as an issuance target. It is a scale indicator showing that SOEs could materially expand the supply of domestic securities if issuance is phased and backed by strong governance.

Table 1. Potential frontrunner SOEs for corporate bond issuance in Moldova

SOE	Equity, MDL mln	Leverage	ROA	Current liquidity	Indicative issuance potential, MDL mln
Barza Alba	345.5	0.11	2.08%	10.7	150.0
Energocom	8,036.9	0.34	1.17%	14.5	1,900.0
Loteria Nationala a Moldovei	211.5	0.28	57.7%	3.4	63.0
Moldtelecom	4,250.6	0.19	0.76%	5.2	1,600.0
RED Nord	2,637.7	0.12	2.32%	8.6	1,100.0
Tracom	67.7	0.01	2.53%	78.6	33.4
Arena Nationala	834.5	0.38	1.32%	2.6	161.4
Franzeluta	249.0	0.21	-6.09%	4.9	92.3

Source: author estimations

The capital-market constraint is equally important. Moldova has one of the lowest financial-market-depth indicators in the region and remains characterized by limited instruments, weak secondary trading, few issuers and a modest non-bank institutional investor base. However, the context has improved recently. The National Capital Market Development Strategy for 2025-2030 now explicitly targets diversified instruments, long-term corporate finance, investor confidence, financial education and instruments such as green, mortgage and project bonds. At the same time, the domestic corporate-bond market has practical precedent through listed MAIB bond issues. Moldova therefore no longer needs to prove that corporate bonds can exist; it must expand the issuer base beyond banks and ensure that the first SOE issuers set a high-quality standard.

International best practices for SOE bond issuance

International experience shows that successful SOE bond issuance is rarely an isolated transaction. It is normally embedded in a financing architecture: clear ownership policy, credible audit, professional boards, fiscal-risk monitoring, explicit state-support rules and predictable investor relations. The most relevant comparators for Moldova are Baltic and Central European state-controlled utilities, together with larger global strategic SOEs that show how repeated market access is organized.

Table 2. International practices relevant to Moldova

Issuer/country	Practice	Lesson for Moldova
Latvenergo, Latvia	Repeated green bond issuance listed on Nasdaq Baltic with allocation and impact reporting.	Use green labels only where eligible projects, tracking and annual reporting are credible.
Ignitis Group, Lithuania	Programme-based green bond issuance, ratings, exchange listings and investor reporting.	Start smaller but use programme logic to lower repeat transaction costs and build a curve.
Eesti Energia, Estonia	State-owned energy issuer using green and hybrid finance instruments.	Transition finance requires transparent leverage management and conservative first structures.
Temasek, Singapore	Medium-term note and commercial paper programmes backed by clear funding policy and strong ratings.	Replicate clarity of funding policy, not scale; avoid ad hoc politically driven borrowing.

Issuer/country	Practice	Lesson for Moldova
Codelco, Chile	State-owned strategic company issuing international bonds for large capital expenditure.	Large SOE debt must be integrated into fiscal-risk and ownership monitoring.
EDF, France	EMTN, green and hybrid instruments within a sustainable finance framework.	Complex instruments should follow only after plain-vanilla bonds build domestic confidence.

Source: author synthesis from issuer disclosures, exchange information, OECD/World Bank governance guidance and EBRD project materials.

Seven best-practice principles emerge. First, issuer selection must be based on commercial credit quality, not political visibility. Second, the state role must be explicit: a bond is either guaranteed, with the fiscal commitment disclosed and approved, or it is a corporate credit instrument without state guarantee. Third, proceeds should finance identifiable investment projects rather than operating losses. Fourth, the issuer should use professional intermediaries, legal counsel, auditors and, where feasible, an external rating or credit opinion. Fifth, securities should be dematerialized, settled through the central securities depository and listed on a regulated or transparent venue. Sixth, post-issuance reporting should cover financial results, covenant compliance, material events and use of proceeds. Seventh, the first issues should be conservative: domestic currency, plain-vanilla coupons, moderate maturities and simple redemption rules.

The Baltic cases are particularly relevant. They show that state-owned utilities in small European markets can use bonds to finance infrastructure and green transition when disclosure and reporting are credible. They also show that a green bond should not be used as a branding device. It must be supported by eligible projects, tracking of proceeds, external review and annual allocation or impact reporting. For Moldovan SOEs, the first objective should be a bankable project; the green label can follow only if the project and reporting systems meet recognized principles such as the ICMA Green Bond Principles.

Advantages for Moldova’s SOE sector

Corporate bonds can provide five advantages for Moldovan SOEs. The first is financing diversification. SOEs currently rely on retained earnings, bank loans, budget allocations, donor funds or supplier credit. Retained earnings are limited by weak profitability and dividend extraction; bank loans may be short in maturity and collateral intensive; budget funds compete with other public priorities; and donor funds can be project-specific and slow. Bonds can mobilize domestic savings directly from households, banks, insurers, investment funds and companies. Banks remain important as arrangers, custodians, market makers and investors, but the financing ecosystem becomes broader. The second advantage is better maturity matching. Many SOEs need long-lived investment in telecommunications, electricity distribution, energy security, logistics, industrial infrastructure or production modernization. A bond can match repayment to project economics more flexibly than a short amortizing loan. For a pilot market, simple fixed or floating coupon bonds with moderate maturity are preferable; over time, successful issuers can use programme issuance, longer maturities or thematic instruments.

The third advantage is potential cost competitiveness. A transparent SOE with stable cash flows may borrow at a spread between government securities and higher-risk private corporate debt. The first issue may include novelty and transaction-cost premiums, but repeated issuance under standardized documentation can reduce costs. Even when the coupon is not lower than a bank loan, bonds may still be preferable if they lengthen maturity, reduce collateral constraints and create a public track record.

The fourth advantage is governance. To issue credibly, an SOE must disclose audited accounts, risk factors, repayment sources, related-party transactions, public-service obligations and material events.

This creates an external accountability mechanism beyond the ownership agency and line ministry. Investors become a constituency for timely reporting and disciplined cash-flow management. A reliable bond record can also strengthen preparation for future minority listing or strategic partnership.

The fifth advantage is alignment with Moldova's development and EU integration priorities. Energy, digital, transport and utility SOEs can finance projects that reduce losses, improve efficiency, increase resilience, integrate renewable energy or modernize service delivery. Green or transition bonds may attract additional investors, but only when eligible projects, external review and annual reporting are in place.

Impact on capital-market development

SOE bonds can affect Moldova's capital market through six channels. First, they increase the supply of investable instruments. A phased realization of only 10 percent of the MDL 5.1 billion indicative potential would add about MDL 510 million in new securities, a material increase for a shallow market. Second, repeated issuance can create benchmark credit spreads between government securities and private corporate debt. Investors would observe the price of quasi-sovereign but non-guaranteed corporate risk, helping private issuers price future bonds.

Third, SOE bonds can broaden the investor base. Retail investors may be attracted by familiar names, while banks, insurers and future pension or investment funds gain local-currency instruments for portfolio diversification. This requires investor education. SOE bonds must not be sold as deposits or government securities; investors must understand credit, liquidity, interest-rate and reinvestment risks. Fourth, issuance builds intermediary capacity. Arrangers, lawyers, auditors, the stock exchange, the central securities depository and the regulator all learn by processing real transactions. Larger SOE issues create incentives to invest in market infrastructure and analytical capacity.

Fifth, successful SOE issues can crowd in private issuers by demonstrating that bonds are feasible. This effect will occur only if pricing is fair. If SOEs issue at artificially low yields because investors assume an unconditional rescue, private companies may be crowded out. Therefore, guarantee status must be explicit and pricing must reflect actual risk. Sixth, SOE bonds can raise market trust. A well-prepared issue that pays coupons on time, reports regularly and communicates clearly will improve confidence. A poorly prepared issue would damage the market. Moldova's first SOE bonds should therefore be treated as public-interest transactions with standards above the legal minimum.

Procedures for SOE corporate bond issuance

A Moldovan SOE should follow a sequenced procedure. The first stage is eligibility screening. Under Moldova's capital-market framework, corporate bonds can be issued by eligible corporate forms, including joint-stock companies and limited liability companies. State enterprises that have not been corporatized are not immediate issuers. The Public Property Agency should therefore classify SOEs as immediately eligible, eligible after governance and financial improvements, or requiring corporatization and restructuring.

The second stage is pre-issuance diagnostics. The issuer should review at least three years of financial statements, accounting policies, cash-flow projections, arrears, contingent liabilities, litigation, procurement practices, tariffs, public-service obligations, environmental and social risks and project feasibility. The board should approve a bond-readiness report. Before filing any prospectus, the issuer should have audited statements, an active board, audit committee or equivalent oversight, internal controls, a risk register, transparent procurement rules and a website containing annual reports, governance information and investor contacts.

The third stage is project selection. The bond should finance a defined investment programme rather than general operating needs. The project memorandum should explain what will be financed, why it is needed, how procurement will work, how cash flows or service quality will improve, and how implementation will be reported. For green or sustainability bonds, eligible categories must be defined, proceeds tracked separately and annual allocation and impact reporting prepared.

The fourth stage is transaction structuring and approval. The issuer and arranger set currency, amount, maturity, coupon, redemption method, covenants, events of default, investor categories, guarantee status and listing venue. First issues should be domestic-currency and plain-vanilla; foreign-currency debt should be avoided unless the SOE has natural foreign-currency revenues. Approvals should involve the board, shareholder or state-owner, ownership agency, Ministry of Finance where fiscal risk is relevant, NCFM, Moldova Stock Exchange and Central Securities Depository.

Table 3. Compact roadmap for SOE bond issuance in Moldova

Stage	Main actions	Lead actors
1. Eligibility	Confirm legal form, charter authority, profitability, equity limits, prior obligations and SOE borrowing approvals.	SOE, Public Property Agency, legal counsel
2. Governance upgrade	Audit, independent board capacity, audit/risk committee, disclosure website, internal controls and investor contact.	SOE board, auditor, ownership agency
3. Project model	Define use of proceeds, procurement plan, cash-flow effects, debt-service capacity and stress scenarios.	SOE management, technical advisers, arranger
4. Documentation	Prepare prospectus, financial disclosure, risk factors, bond terms, subscription rules and guarantee statement.	Issuer, arranger, counsel, auditor
5. Approval and marketing	Submit to NCFM, coordinate with MSE/CSD, run investor education, bookbuild, price and allocate.	NCFM, MSE, CSD, arranger, issuer
6. Post-issuance	List and settle securities; publish financial reports, material events, covenant and use-of-proceeds updates.	Issuer, board, ownership agency, regulator

Source: author synthesis based on the national legislation

The fifth stage is prospectus, marketing and allocation. The prospectus must provide issuer history, ownership, governance, business model, financial statements, risk factors, project description, bond terms, taxation, subscription procedures, secondary-market trading and material contracts. SOEs should add disclosures on public-service obligations, tariff rules, state support, dividend policy, procurement rules and related-party transactions. Marketing should be educational rather than promotional, with clear warnings that corporate bonds carry credit and liquidity risk unless explicitly guaranteed.

The sixth stage is post-issuance discipline. The issuer should publish annual audited statements, interim financial updates, material-event notices, covenant compliance, coupon-payment information and use-of-proceeds reports. The ownership agency and Ministry of Finance should monitor SOE bond debt in a fiscal-risk dashboard covering outstanding debt, maturities, guarantee status, debt-service coverage, project progress, covenant breaches and refinancing needs.

Risks, safeguards and policy recommendations

The main risk is implicit-guarantee moral hazard. Investors may assume that an SOE bond is state debt even when no guarantee exists. Moldova should adopt a simple rule: SOE bonds are not state-guaranteed unless a formal guarantee is approved, disclosed and recorded under fiscal rules. Prospectuses must state the guarantee status explicitly. A second risk is that bonds finance operating

losses or postpone restructuring. Pilot bonds should finance productivity-enhancing investment or prudent refinancing, not losses. A third risk is political interference through board appointments, tariff decisions, procurement or dividend extraction. Safeguards include independent board members, transparent ownership mandates, costed public-service obligations, audited accounts and published related-party transactions.

Retail investor protection is also essential. SOE bonds may be attractive to citizens because the issuer is familiar, but familiarity can create false confidence. Subscription documents should explain that bonds are investments, prices may fluctuate, secondary-market liquidity may be limited and repayment depends on issuer capacity unless explicitly guaranteed. For green bonds, Moldova should prevent greenwashing through external review, eligible project categories, tracking of proceeds and annual impact reporting.

In the short term, Moldova should launch a high-standard pilot with one or two SOEs selected through transparent criteria: eligible corporate form, audited accounts, moderate leverage, positive cash-flow outlook, credible project and readiness to disclose. The 2022 financial analysis should be updated with 2023-2025 audited data. A common bond-readiness checklist should be approved by the Public Property Agency, Ministry of Finance, NCFM and Moldova Stock Exchange. The first bond should be small to moderate in size, domestic-currency, listed, dematerialized, without ambiguous state guarantee and supported by investor education.

In the medium term, Moldova should adopt an SOE debt-management policy covering approval thresholds, guarantees, maturity limits, debt-service ratios and reporting obligations. Successful pilot SOEs can issue under programmes with multiple series, creating a domestic quasi-corporate curve. Institutional demand should be developed through insurance, pension and investment-fund reforms, while secondary-market liquidity can be supported by transparent pricing and lower transaction costs. Green or transition bonds should be introduced only for issuers with eligible investment pipelines and reporting systems.

In the long term, suitable state enterprises should be corporatized into joint-stock companies or limited liability companies where consistent with ownership policy. Disclosure, prospectus and market-abuse rules should converge progressively with EU standards. A reliable SOE bond record can prepare some companies for minority listings or privatization, while fiscal-risk reporting should integrate all SOE bonds and guarantees. Regional connectivity with Romanian and EU capital-market infrastructure should be explored once domestic foundations are stronger.

Conclusions

SOE corporate bonds can become a catalyst for Moldova's capital-market development, but only under demanding conditions. The opportunity is real: a subset of Moldovan SOEs has sufficient balance-sheet scale to produce a meaningful increase in domestic instruments, and the estimated indicative potential of about MDL 5.1 billion shows that public companies can move the market if issuance is phased. The timing is also favorable because the 2025-2030 capital-market strategy prioritizes diversified instruments and long-term corporate finance, while practical domestic bond precedent already exists.

The risks are equally real. Weak governance, politically influenced management, unfunded public-service obligations, ambiguous state guarantees, mis-selling to retail investors and greenwashing could damage the very market the policy aims to develop. The paper's conclusion is therefore conditional. SOE bonds should not be used as off-budget public debt or as a substitute for restructuring. They should finance credible investments, be priced according to disclosed risk, be listed and settled transparently, and be monitored through both market and fiscal-risk channels.

If these conditions are met, SOE bonds can serve three reform objectives simultaneously. They can finance modernization of strategic SOEs, expose those SOEs to stronger disclosure and market discipline, and expand Moldova's capital market through new instruments, benchmarks, investors and intermediary capacity. The first transactions will be decisive. A disciplined pilot can build trust

and crowd in private issuers; a weak transaction can set the market back. Moldova should therefore proceed, but proceed selectively, transparently and with standards above the legal minimum.

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