



EU4Business

COUNTRY REPORT

# MOLDOVA

May 2017

 Armenia  Azerbaijan  Belarus  Georgia  Moldova  Ukraine

## INVESTING IN SMEs IN THE EASTERN PARTNERSHIP



Republic of Moldova



EU4Business

# STRATEGIC PRIORITIES



1

Improving  
access to  
finance



2

Strengthening policy  
and regulatory  
frameworks



3

Improving  
knowledge base  
and business skills



4

Improving  
access to  
markets





# EU4BUSINESS ON THE WAY TO ECONOMIC GROWTH

Reinforcing economic resilience and promoting stabilisation at the EU's borders are key goals of both our new Neighbourhood Policy and of our Eastern Partnership initiative. Citizens across the Eastern Partnership countries aspire to economic development and greater prosperity. They are awaiting concrete and tangible results, such as getting a good job or growing their businesses.

It is in this spirit that the European Union launched the EU4Business initiative. The objective is to support our partner countries' commitment towards improved business climates and to support their SMEs and entrepreneurs in investing in their skills, in their ideas and reach-out to new market opportunities.

Our Eastern neighbours have all made considerable progress in promoting SMEs. Most have also made substantial progress in the design and implementation of business and investment climate reforms. This includes the simplification of business-related legislation, streamlining technical barriers to trade and upgrading quality infrastructure, and the improvement of the legal and regulatory environment in the financial sector. Partner countries are also increasingly aware of the need to support SMEs not only financially, but also by creating dedicated SME agencies and assistance programmes, and specific instruments to encourage SME access to finance and stimulate exports.

Under EU4Business, the EU and its partners have also achieved a lot, supporting countries in the design and implementation of SME policies, encouraging public private dialogue, reinforcing the role of business support organisations, as well as providing access to finance to SMEs. Through our DCFTA facility for example, the EU provided €200 million of grants which will unlock at least €2 billion of new investments. As a result of our joint efforts, more than 90 000 enterprises received already increased access to finance while about 93 000 jobs have been supported! You will read even more of our achievements in this report.

However, there are still important challenges ahead. Access to finance is often limited to foreign currencies exposing SMEs to currency risks. Many SMEs in the region remain tied in low valued-added sectors. Enhancing SME capacities to become more innovative, and to connect to new markets is especially pertinent today as some SMEs have been cut off from traditional markets. We should therefore consider additional support to realise quick commercial wins while fully benefiting from the opportunities offered by closer economic cooperation with the EU. I know that the three DCFTA signatories face a particular challenge in that respect. We have already achieved a lot. Let us now keep the momentum to further improve EaP countries' economic resilience, to support SME trade with the EU and to deliver concrete and positive impact for the life of all people.

**Johannes Hahn**

Commissioner for European Neighbourhood Policy and Enlargement Negotiations

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## CHAPTER 1:

# COUNTRY OVERVIEW

### 1.1 Country overview – overall update on the economic situation

The economic performance of the Republic of Moldova is fairly modest due to exposure to internal and external shocks caused by structural challenges in the financial sector and to regional geopolitical instability. Its economic growth is mainly based on the increased demand fuelled by remittances sent by workers abroad and trade based on basic agricultural and manufactured products. With few natural energy resources, Moldova imports almost all of its energy supplies from Russia and Ukraine.

#### Gross domestic product

According to the National Bureau of Statistics of the Republic of Moldova (NBSRM) data, the largest components in the first quarters of 2016 were wholesale and retail (18.57%), extractive and manufacturing (14.97%) and agriculture, hunting and forestry (7.69%). While the GDP in 2015 experienced a decrease of 3.7% compared to 2014, by the end of 2016 the GDP had increased by 6.3%.

#### Foreign Trade

Still based on NBSRM data, Moldova's exports in 2016 amounted to a total of approximate EUR 1.91 billion, of which EU countries account for EUR 1.24 billion (65.14%), CSI countries account for EUR 384 million (20.25%), and other countries account for EUR 277 million (14.61%). In terms of its imports, in 2016 Moldova registered a total of EUR 3.74 billion, of which EUR 1.83 billion is accounted for by EU countries (49.09%), EUR 0.96 billion is accounted for by CSI countries (25.56%) and EUR 0.95 billion is accounted for by other countries of the world (25.35%).

Continuing the trend of the past years, in 2016 imports exceeded exports, Moldova experiencing a negative balance of trade totalling around EUR 1.84 billion (trade with EU countries accounting for EUR 595 million, with CSI countries for EUR 569 million and with other countries for EUR 669 million).

Figure 1: Moldova GDP breakdown, 2Q2016 <sup>(1)</sup>

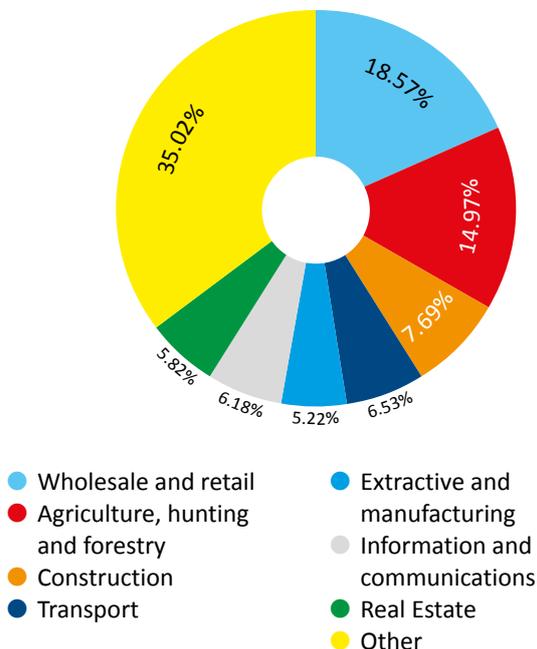
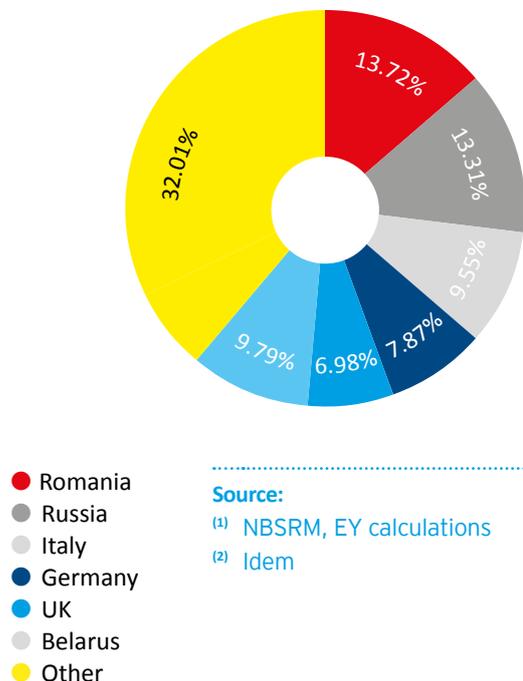


Figure 2: Geographical distribution of exports, 2016 <sup>(2)</sup>



Source:

<sup>(1)</sup> NBSRM, EY calculations

<sup>(2)</sup> Idem

**Table 1: Data from National Bank of Moldova <sup>(3)</sup>**

INDICATOR	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2022
MDL/USD average exchange rate	10.39	11.11	12.37	11.74	12.11	12.59	14.04	18.82	20.04	3.8	4.5	4.8

**Source:**

<sup>(3)</sup> National Bank of Moldova

**Exchange rate**

According to data from National Bank of Moldova, the exchange rate of the national currency since the beginning of 2015 depreciated by 25.9% in nominal terms against USD (from 15.62 MDL for one dollar at 01.01.2015 up to 19.66 MDL at 31.12.2015). In 2016, fluctuations in currency were considerably reduced, with the exchange rate against the USD being around the yearly average of 20.04 MDL for one dollar (from 19.64 MDL for one dollar at 01.01.2016 to 19.98 MDL at 31.12.2016). While currency fluctuation and overall depreciation during 2015 was due to political uncertainties (e.g. the government’s resignation, pre-election period of local elections, the situation in the banking sector as well as geopolitical uncertainties related to the region), positive and optimistic outlooks regarding the economy of Moldova led to the relative stabilisation of the currency during 2016. In a nutshell, as data from the National Bank of Moldova (BNM) shows, the exchange rate of the Moldovan currency maintained a relative high level throughout 2016, without experiencing significant increases (or decreases).

**Inflation**

According to BNM data, the inflation rate experienced high volatility throughout 2015 and 2016. During 2015, the annual inflation rate has exhibited a pronounced upward trajectory. This increased from 4.7% in January to 7.1% in March under pressure from currency depreciation, thereby exceeding the upper limit of ± 1.5 percentage points to the inflation target of 5.0% stipulated in the monetary policy strategy for the medium term. Thereafter, the annual inflation rate increased gradually to 8.6% in July 2015, influenced by the effects of depreciation, but also unfavourable agro-meteorological conditions that put pressure on food

prices. An increase in electricity tariffs and the gas supply caused a pronounced acceleration of inflation to 12.2% in August and by the end of 2015 the inflation rate was 13.6%.

Throughout 2016, the inflation rate experienced a downward trend due to the modest domestic demand, adjustments of electricity tariffs in April, and lower food and energy prices. Consumer prices in Moldova increased by 3% year-on-year in January of 2017, following a 2.4% rise in the previous month.



It was the highest inflation rate since September, as prices rose at a faster pace for: food (3.7% from 2.7% in December), hotels and restaurants (5% from 4.7%), transport (1.9% from -2.1%) and fell less for housing and utilities (-1.3% from -1.4%).

Despite the modest correction, external risks associated with disinflationary pressures (due to weak economic activity in euro area countries and the ongoing recession in the Russian Federation - the main external trade partners of the Republic of Moldova) are still relevant.

Figure 4: Exchange rate (MDL/USD) during 2016 (%) <sup>(5)</sup>

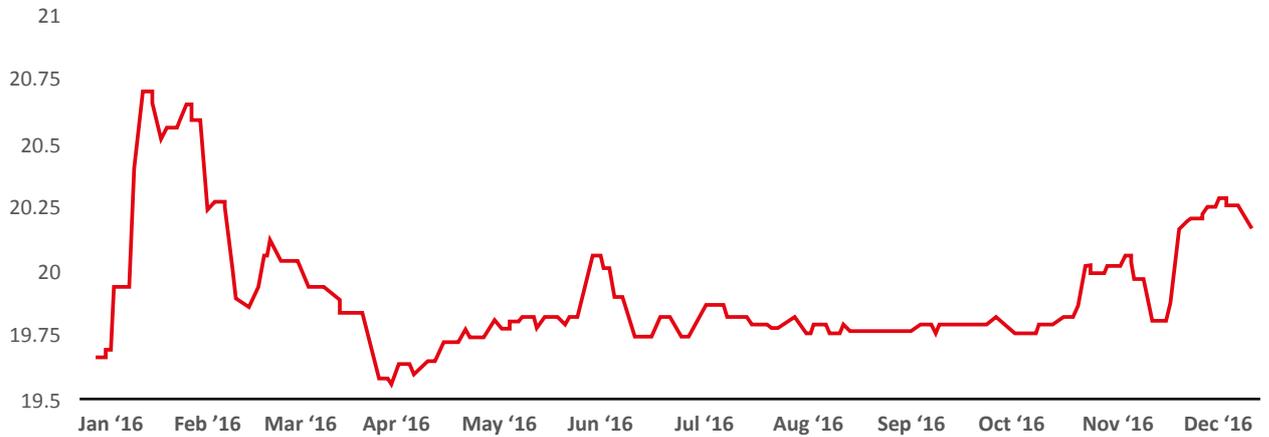
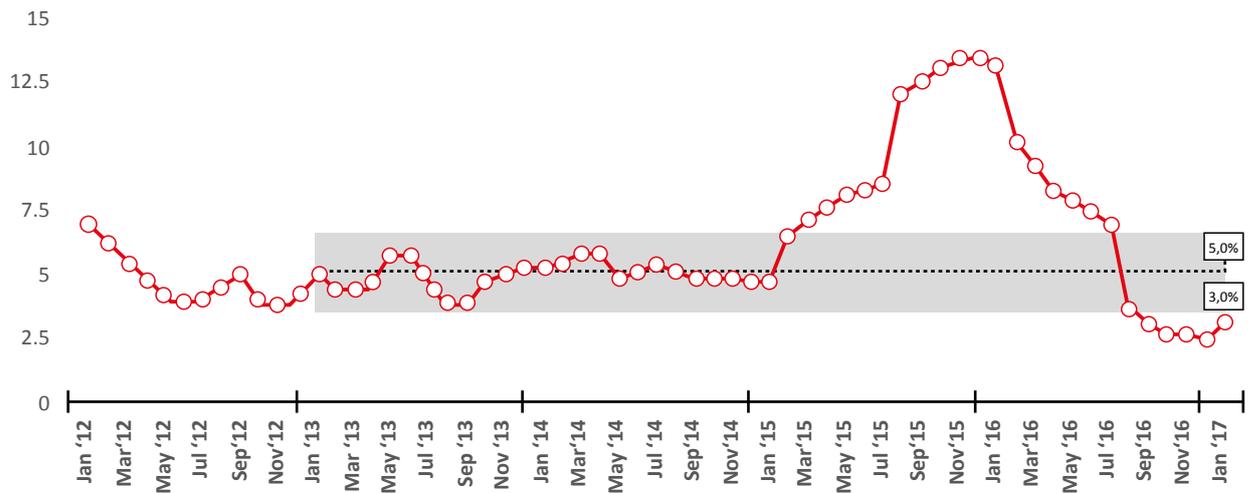


Figure 5: Inflation rate (%) <sup>(6)</sup>



**Labour market**

The National Bureau of Statistics reports that in 2016 the economically active population (employed and unemployed) amounted to 1 272 000 persons, without any significant change as to 2015. The employed population was 1 219 000 persons, up by 1.3% compared to 2015. The employment rate of the population aged 15 and over was 40.8%, very similar to the level of 2015 (+0.5 p.p.).

**Source:**

- <sup>(5)</sup> National Bank of Moldova
- <sup>(6)</sup> NBSRM
- <sup>(7)</sup> Idem
- <sup>(8)</sup> Idem

In 2016, the number of unemployed, estimated as defined by the International Labour Office was 53 300, being 62 000 less than in 2015.

Table 2: Data from National Bank of Moldova <sup>(7)</sup>

EMPLOYMENT RATE									
Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016
Employment rate, %	42.5	40	38.5	39.4	38.4	39.3	39.6	40.3	40.8



**Table 3: Data from National Bank of Moldova <sup>(8)</sup>**

<b>EMPLOYMENT RATE</b>									
<b>Indicator</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<i>Employment rate, %</i>	4	6.4	7.4	6.7	5.6	5.1	3.9	4.9	4.2

The unemployment rate (percentage of unemployed persons in the active population) registered a value of 4.2%, without significant differences compared to 2015 (4.9%).

The average nominal salary of an employee in the national economy according to the NBSRM for 2016 was 5 084 MDL (approximately EUR 245), an increase of around 10% from 4 610.9 MDL (approximately EUR 222) for 2015.

## 1.2 Country overview – overall update on the political situation

Under the Constitution adopted in July 1994, Moldova is a democratic republic based on the rule of law. The constitution separates the state powers into three branches – the legislative, the executive and the judicial branches.

**The legislative power** belongs to the Parliament of the Republic of Moldova, elected for four-year terms. The parliament is unicameral. It consists of 101 members of parliament – representatives of parties and electoral blocks, as well as independent candidates.

**The executive power** is exercised by the government. Its role is to carry out the domestic and foreign policy of the state, as well as to control the activity of public administration.

Source:  
<sup>(8)</sup> NBSRM

The government consists of a prime minister, deputy prime ministers, ministers and other members. The president of the Republic of Moldova appoints a candidate for prime minister through consultation with parliamentary factions.

**The President of the Republic of Moldova** was elected in December 2017 by popular vote (direct election). The winner was the socialist candidate Mr. Dodon.

**The judicial branch** encompasses the supreme court of justice, courts of appeal and ordinary courts. The supreme court of justice is the highest court and has the power to review decisions made by lower courts.



### 1.3 Country overview – overall presentation of the SME sector

Table 4: Moldovan SME definition <sup>(9)</sup>

CATEGORY	AVERAGE NUMBER OF EMPLOYEES	ANNUAL TURNOVER	TOTAL ASSETS
Micro enterprises	0-9	< MDL 9 mln (EUR 430 000)	< MDL 9 mln (EUR 430 000)
Small enterprises	10-49	< MDL 25 mln (EUR 1.1 mln)	< MDL 25 mln (EUR 1.1 mln)
Medium enterprises	50-249	< MDL 50 mln (EUR 2.2 mln)	< MDL 50 mln (EUR 2.2 mln)

Table 5: EU's SME definition <sup>(10)</sup>

CATEGORY	AVERAGE NUMBER OF EMPLOYEES	ANNUAL TURNOVER	TOTAL ASSETS
Single entrepreneur and Micro enterprises	0-10	<EUR 2m	<EUR 2m
Small enterprises	10-50	<EUR 10m	<EUR 10m
Medium enterprises	51-250	<EUR 50m	<EUR 43m

#### Definition of SMEs

According to domestic legislation (Law No. 179 of July 2016 on Small and Medium-Sized Enterprises), SMEs are defined according to three parameters: the number of employees, turnover and total assets. The law identifies three categories of enterprises: micro, small and medium. A company is included in a category if it meets the related headcount ceiling and either the turnover or the asset ceilings. For comparison purposes, we summarised the SME definition criteria in Moldova and EU in the tables above.

Table 6: The SME sector <sup>(11)</sup>

CLASS SIZE	NUMBER OF ENTERPRISES			NUMBER OF PERSONS EMPLOYED			VALUE ADDED		
	Moldova		EU28	Moldova		EU28	Moldova		EU28
	Number	Share	Share	Number	Share	Share	Million EUR	Share	Share
Micro enterprises	33 795	76.0%	92.8%	71 984	18.8%	29.5%	346	12.2%	21.2%
Small enterprises	8 268	18.6%	6.0%	90 634	23.7%	20.2%	512	18.0%	18.0%
Medium enterprises	1 218	2.7%	1.0%	54 248	14.2%	17.0%	392	13.8%	18.2%
SMEs	43 281	97.4%	99.8%	216 866	56.7%	66.8%	1 250	44.0%	57.4%

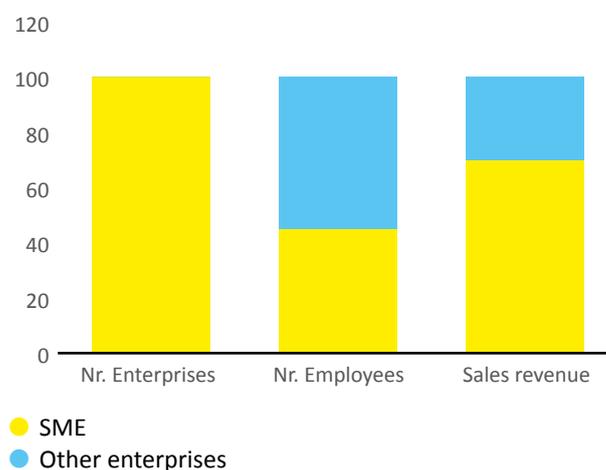
#### SME sector in Moldova

As of 2015, there were about 498 000 SMEs in Moldova, with 1% less compared to 2014. The SME sector represents around 97.2% of the total number of enterprises in Moldova.

The SME sector is still a major employer in Moldova, with over 281 400 people working within SMEs (representing 55.1% of the total workforce).

Revenue from sales of small and medium-sized enterprises during this period amounted to MDL 86.8 billion (EUR 3.9 billion) or 30.8% of revenue from sales in total economy. The weight of SMEs within the total number of enterprises in Moldova is presented, for the main indicators, in the figure below:

Figure 6: Weight of SMEs on total number of enterprises for main indicators <sup>(12)</sup>



Source:

<sup>(9)</sup> Law No. 206-VXI of July 2006 on Support to Small and Medium-Sized Enterprises

<sup>(10)</sup> <http://ec.europa.eu/>

<sup>(11)</sup> European Commission, 2016 SBA Fact Sheet

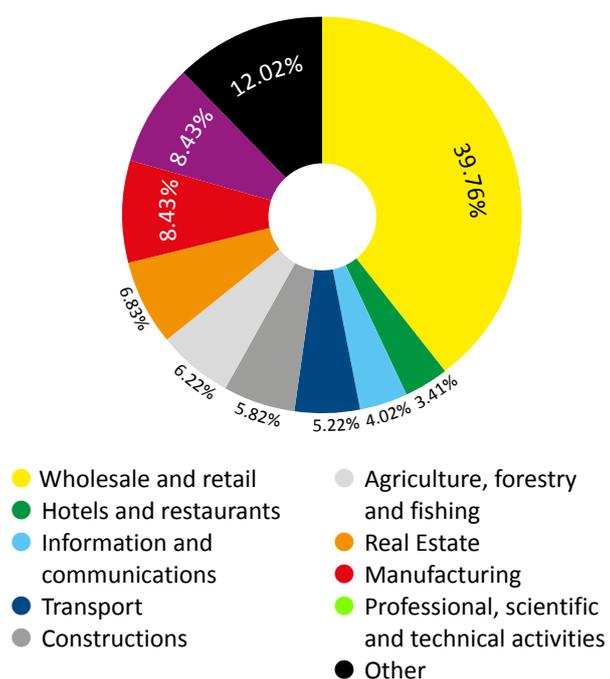
<sup>(12)</sup> Idem

<sup>(12)</sup> BSRM, 2016



In 2015, a majority of 39.76% of SMEs operated in the wholesale and retail sector, followed by professional, scientific and technical activities (8.43%) and manufacturing (8.43%). Most SMEs registered in Moldova are located in the Chisinau metropolitan area (around 64%) and centre, accounting for more than 75% of all SMEs in Moldova.

**Figure 7: SME distribution by industry (no. of entities) as of 2015 in Moldova <sup>(13)</sup>**



Overall, the key issues affecting the development of SMEs in Moldova can be summarised as follows:

- Insufficient knowledge of export techniques/access to foreign markets and an insignificant share of SMEs engaged in export
- Lack of specific (export) financing support to companies
- Underdeveloped (export) infrastructure for supporting businesses and capital markets
- Low level of business culture and vocational training
- Unfair competitive conditions because of the existence of monopolistic economic sectors
- Low overall level of innovation and technical development within companies
- Lack of and/or limited access to ‘affordable’ external sources of funding
- Lack of and/or limited provision of ‘affordable and targeted’ business development services (BDS)
- Lack of and/or limited access to specific business infrastructure, such as business incubators
- Lack of and/or limited access to specific export development support actions for Moldovan SMEs

Source:  
<sup>(13)</sup> BSRM, 2016

## CHAPTER 2:

# EU4BUSINESS PROJECTS

### 2.1 Existing EU4Business projects

We have drawn up below a comprehensive list of EU4Business programmes applicable in Moldova, clustered by the following categories/priorities:

- Access to finance;
- Access to finance in combination with agriculture, energy or Green for Growth funds;

- Access to markets;
- Improving skills & knowledge;
- Legal and regulatory reform.

The tables below present the main information related to the EU4Business programmes.

#### *EU4Business initiatives in the sphere of Access to Finance*

PROJECT TITLE	IMPLEMENTING AGENCY/INSTITUTION	START DATE	END DATE	BRIEF DESCRIPTION
<i>SME Financial Facility I</i>	EBRD/KfW	2010	2019	Facility aimed at offering a wide range of financial services and products to SMEs and financial intermediaries throughout the region.
<i>SME Finance Facility - Phase I with EIB</i>	EIB	2010	2020	Emphasis is given to stimulating local currency lending, particularly for MSMEs.
<i>Women in Business</i>	EBRD	2015	2022	The project aims to improve access to finance for women-led SMEs as well as business development know-how.
<i>Neighbourhood Window of the European Fund for South East Europe (EFSE)</i>	KfW	2009	2019	The Fund aims to foster economic development and prosperity in the Southeast Europe & Caucasus region through the sustainable provision of additional development finance.
<i>Financial Sector Institution Building and Crisis Response</i>	EBRD	2009	2018	Aimed at rebuilding financial intermediaries' confidence following the financial crisis to extend financing to SMEs, including micro-enterprises.
<i>DCFTA SME Direct Finance Facility</i>	EBRD	2014	2026	Aims to blend EU and the organisations' funds to provide financing and technical assistance to the SME sector in order to improve conditions for SME lending.
<i>DCFTA Programme</i>	EBRD	2016	2026	The primary objective of the programme is to support DCFTA-related priority improvements in SMEs following the signing of AA/DCFTAs in 2014. The EBRD DCFTA Programme will assist the development of the SME sector through a variety of investments supported by grant funding from the EU for risk mitigation, investment incentives to SMEs and technical assistance.



PROJECT TITLE	IMPLEMENTING AGENCY/INSTITUTION	START DATE	END DATE	BRIEF DESCRIPTION
<i>DCFTA Programme</i>	EIB	2016	2021	The project provides support to the private sector, SMEs in particular, so that they can cope with the implied requirements and seize the new opportunities.

**EU4Business initiatives in the sphere of Access to Finance in combination with Agriculture, Energy or Green for Growth**

PROJECT TITLE	IMPLEMENTING AGENCY/INSTITUTION	START DATE	END DATE	BRIEF DESCRIPTION
<i>Identification and promotion of energy efficiency investments</i>	EBRD	2006	2017	Awareness raising campaigns regarding Energy Efficiency (EE). Establishment of credit lines within local banks and the provision of technical, financial, legal and environment expertise to beneficiaries.
<i>Green for Growth - Extension to NIF East Region</i>	EIB	2013	2018	Helps to overcome the lack of sufficient legal, policy and other framework conditions by providing long-term financing instruments.
<i>The Fruit Garden of Moldova</i>	EIB	2014	Ongoing	The project aims to provide support to the horticulture subsector of Moldova by pursuing three main objectives. The first is to support the modernisation process throughout the entire value chain. The second is to provide wider access to finance via intermediary banks. The third is to support access to international trade by local participants. Projects falling within the scope of the programme include upgrading the value chain in the horticultural sector (e.g. fresh and dried fruits and nuts).

*EU4Business initiatives in the sphere of Access to Markets*

PROJECT TITLE	IMPLEMENTING AGENCY/INSTITUTION	START DATE	END DATE	BRIEF DESCRIPTION
East Invest I	Eurochambers	2010	2017	Contributes to the economic development of the Eastern ENPI region and to the improvement of its business environment within the context of developing networking: on one hand between the EU and the Eastern ENPI partners and on the other hand between the Eastern partners.
East Invest II	Eurochambers	2014	2017	Contributes to the economic development of the Eastern ENPI region and to the improvement of its business environment within the context of developing networking: on one hand between the EU and the Eastern ENPI partners and on the other hand between the Eastern partners.

*EU4Business initiatives in the sphere of Improving Skills & Knowledge*

PROJECT TITLE	IMPLEMENTING AGENCY/INSTITUTION	START DATE	END DATE	BRIEF DESCRIPTION
EBRD Small Business Support (SBS) Programme - Enterprise Growth Programmes (EGP) and Business Advisory Services (BAS) phase II	EBRD	2015	2018	Continuation of the Small Business Support activities (SBS) in the Eastern Partnership region. It assists SMEs in the EaP countries in improving their competitiveness and ability to attract external financing.

*EU4Business initiatives in the sphere of Legal and Regulatory Reform*

PROJECT TITLE	IMPLEMENTING AGENCY/INSTITUTION	START DATE	END DATE	BRIEF DESCRIPTION
STAREP - Strengthening Auditing and Reporting in the Countries of the Eastern Partnership	WB	2013	06/2018	STAREP aims to help the participating countries both to improve their frameworks for corporate financial reporting and to raise the efficiency of local institutions.
SMEs Competitiveness Reforms in EaP	OECD	2013	31/12/2016 1st trimester of 2017	Country-level activities were provided for those countries which have expressed high level political commitment to implementing SME policy reforms and accepted to undergo a peer review examination of these reforms.

## 2.2 EU4Business planned projects

Apart from the projects which have been implemented and those currently being implemented, we have also identified a series of initiatives that have been planned – however, their implementation has not yet started.

The priorities targeted by above projects include:

- Improving access to finance;
- Improving skills and knowledge.

### EU4Business planned projects

At the time of preparing this report, the OECD is engaged in talks with the European Commission on a potential new multi-country project that would include the following activities:

- Strengthening institutions for SME policy and delivery of SME support: assist the Ministry of Economy in the preparation of an SME Strategy Action Plan 2018-20, including proposed measures (financial and non-financial) and mechanisms to support the delivery of high value-added business development services to SMEs in priority sectors with export potential (e.g. agricultural produce, foodstuffs, textiles, machinery equipment, ICT); design a pilot programme on linking foreign investors with domestic SMEs to strengthen SME internationalisation in Moldova. The OECD will assist the Ministry of Economy in carrying out a foreign investor's needs assessment, identifying foreign investors that are ready to cooperate with the government in building a stronger local SME supplier base, identifying potential local suppliers, and proposing policy measures to attract investors and to upgrade the local supply base (i.e. through supplier development programmes, supply-chain financing schemes to improve production equipment and product and process development, workforce training, management consulting and mentoring, etc.); establish a task force in charge of designing and implementing an FDI-SME linkage programme to ensure policy coordination between regional SME development skills, innovation and FDI attraction policies; facilitate public-private policy consultations to prioritise reforms for SME development
- Stimulating reform implementation and exchange of good practices: carry out a peer review of Moldova at the OECD Eurasia Competitiveness Roundtable (2019) to strengthen reform commitment and the exchange of good practices with OECD members and other Eastern Partner countries. The peer review will focus on the SME 2018-20 Strategy Action Plan, as well as reviewing a pilot programme on linking foreign investors with domestic SMEs.
- 3rd SBA assessment. Regional benchmarking of SME policy in all Eastern Partner countries, leading to the publication of a third edition of the SME Policy Index: Eastern Partner Countries. The assessment process would start in early 2018 and the new report would be published in 2019. The report would be based on the same approach as the 2016 edition to ensure comparability over time, and with necessary adjustments to include additional policy priorities to build a conducive business environment (e.g. competition, openness to foreign investment etc.), to benchmark performance with selected EU members, and to integrate data on firm-level performance. A special emphasis will be placed on tracking and assessing progress in the implementation of the country-specific policy reform roadmaps developed for the 2016 edition.

The tables below provide information on the planned EU4Business projects.

### EU4Business initiatives in the sphere of Access to finance

PROJECT TITLE	IMPLEMENTING AGENCY/INSTITUTION	STATUS	BRIEF DESCRIPTION
<i>SME Finance Facility Phase II</i>	EIB	<b>Planned – location (country) is to be investigated</b>	The Eastern Partnership SME Finance Facility brings together loans or guarantees from the European Financial Institutions (EBRD, EIB and KfW) with EU grant resources to support SMEs.

### EU4Business initiatives in the sphere of Access to markets

PROJECT TITLE	IMPLEMENTING AGENCY/INSTITUTION	STATUS	BRIEF DESCRIPTION
<i>Integrating SMEs from EaP countries into domestic and global value chains</i>	ITC	<b>Planned</b>	Awareness raising campaigns regarding Energy Efficiency (EE). Establishment of credit lines within local banks and provision of technical, financial, legal and environment expertise to beneficiaries.

## CHAPTER 3:

# EXISTING NATIONAL POLICIES AND FUTURE MEASURES PLANNED IN THE NATIONAL STRATEGY FOR SME

In recent years, the Moldavian government has undertaken several initiatives to improve the business climate by simplifying its legislative and administrative procedures and staying committed to complete structural reforms. Key developments in this area include the adoption of a new SME strategy and three-year action plans, the expansion of e-government services and the simplification of business registration. With a view to consolidating the relationship with the European Union, Moldova signed an Association Agreement with the EU that was ratified by the European Parliament in November 2014. The Association Agreement establishes a new legal framework for the advancement of relations between Moldova and the EU towards a higher quality level – political association and economic integration with the EU. The Association Agreement (AA) is based on an innovative and ambitious approach, including the creation of a Deep and Comprehensive Free Trade Area (DCFTA).

The DCFTA with the EU that was signed in autumn 2014. This arrangement between the EU and the Republic of Moldova foresees a preferential trade relationship based on mutually advantageous treatment, giving each other better access to their markets than that offered to other trade partners. The DCFTA desideratum is the removal of import (and export if applicable) duties on trade in goods between the parties, the removal of obstacles to trade in services and better access for companies to establish themselves in respective markets. A specific policy dimension relates to the “deep” aspect of this FTA with the Republic of Moldova. As a member of the Eastern Partnership, the Republic of Moldova has been offered an advanced, associated partner status with the EU, aimed to forge closer, political and economic ties with the EU. On this basis, the DCFTA includes several provisions aiming at reforming the Republic of Moldova’s trade and trade-related policies in line with and on the basis of EU acquis. These will provide for the modernisation of the economy, the anchoring of EU investment in the country and a better and more predictable policy environment, with clear impact on the sector of SMEs also.

All of these major initiatives, along with specific support programmes for businesses (including SMEs) generated a change in the World Bank’s Ease of Doing Business 2016 rank, where Moldova changed its position from

78th in the previous year to 52nd. Similarly, it moved up five places in the Global Competitiveness Report for 2015-16 to 84th place among 140 countries compared to 2013-14 outputs. However, Moldova is still lagging behind most countries of the EaP. The most important factors negatively impacting businesses are corruption (123rd place in the Corruption Perceptions Index 2016), political instability, an inefficient bureaucracy and poor access to finance.

In order to tackle the SME policy and strategy issue in a systematic manner, we will first analyse the design component and then list the implementation mechanism.

We will take an in-depth look at the SME policy and strategy design issue, by performing a hierarchical analysis:

<b>Level 1</b>	National Strategy
<b>Level 2</b>	Action Plans
<b>Level 3</b>	Specific Legislations
<b>Level 4</b>	Support Initiatives

### **Level 1: National Strategy**

At the end of 2012 Moldova’s Parliament adopted the Small and Medium Enterprise-Sized Sector Development Strategy for 2012-20. This comprehensive strategy aims to apply the Small Business Act principles to Moldova and improve the business environment for SMEs by facilitating access to finance, increasing competitiveness, stimulating innovation and promoting SMEs development in the regions. The document should promote the following: consolidation of SMEs potential with their current role in the economy, more specific establishment of priorities, the growth of confidence between the business environment and authorities, as well as the creation of a favourable environment for business in general. SME support and development will also contribute to the implementation of other economic policies, such as sectorial and regional, investment, innovation.

### **Level 2: Action Plan**

The action plan for the implementation of the Small and Medium-Sized Enterprise Sector Development Strategy for 2012-20 aims at identifying events, obligations,

deadlines and necessary resources for strategy implementation. The action plan is split into three stages, of three years each, approved during the period of the strategy's effect; subsequently the strategy will include three action plans approved in chronological order. The strategy and action plan contain 7 priority areas, each divided into a series of objectives, and each objective being further divided into a series of actions.

The efficiency of the implementation of each priority, objective and action has been monitored and measured through the constant assessment of the measures, presented in a series of progress reports (in 2013, 2014, 2015 and 2016).

#### Action Plan

At the time of preparing this report, the OECD is engaged in talks with the European Commission on a potential new multi-country project that would include the following activities:

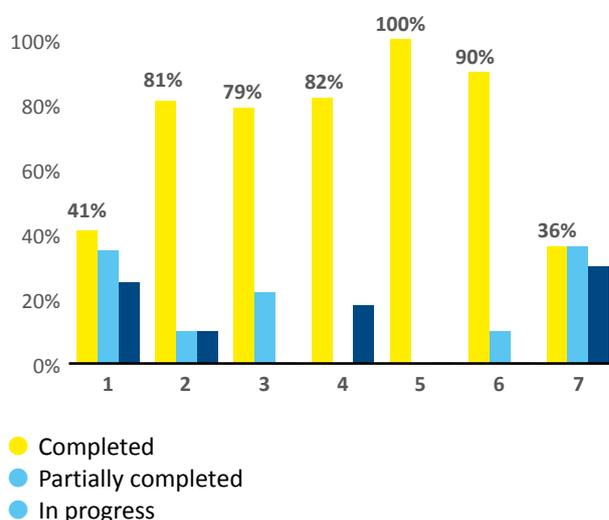
- Strengthening institutions for SME policy and delivery of SME support: assist the Ministry of Economy in the preparation of an SME Strategy Action Plan 2018-20, including proposed measures (financial and non-financial) and mechanisms to support the delivery of high value-added business development services to SMEs in priority sectors with export potential (e.g. agricultural produce, foodstuffs, textiles, machinery equipment, ICT); design a pilot programme on linking foreign investors with domestic SMEs to strengthen SME internationalisation in Moldova. The OECD will assist the Ministry of Economy in carrying out a foreign investor's needs assessment, identifying foreign investors that are ready to cooperate with the government in building a stronger local SME supplier base, identifying potential local suppliers, and proposing policy measures to attract investors and to upgrade the local supply base (i.e. through supplier development programmes, supply-chain financing schemes to improve production equipment and product and process development, workforce training, management consulting and mentoring, etc.); establish a task force in charge of designing and implementing an FDI-SME linkage programme to ensure policy coordination between regional SME development skills, innovation and FDI attraction policies; facilitate public-private policy consultations
  - to prioritise reforms for SME development
  - Stimulating reform implementation and exchange of good practices: carry out a peer review of Moldova at the OECD Eurasia Competitiveness Roundtable (2019) to strengthen reform commitment and the exchange of good practices with OECD members and other Eastern Partner countries. The peer review will focus on the SME 2018-20 Strategy Action Plan, as well as reviewing a pilot programme on linking foreign investors with domestic SMEs.
  - 3rd SBA assessment. Regional benchmarking of SME policy in all Eastern Partner countries, leading to the publication of a third edition of the SME Policy Index: Eastern Partner Countries. The assessment process would start in early 2018 and the new report would be published in 2019. The report would be based on the same approach as the 2016 edition to ensure comparability over time, and with necessary adjustments to include additional policy priorities to build a conducive business environment (e.g. competition, openness to foreign investment etc.), to benchmark performance with selected EU members, and to integrate data on firm-level performance. A special emphasis will be placed on tracking and assessing progress in the implementation of the country-specific policy reform roadmaps developed for the 2016 edition.
- Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded; Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance; Design rules according to the 'Think Small First' principle; Make public administrations responsive to SMEs' needs; Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use state aid possibilities for SMEs; Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions; Help SMEs to benefit more from the opportunities offered by the single market; Promote the upgrading of skills in SMEs and all forms of innovation; Enable SMEs to turn environmental challenges into opportunities; Encourage and support SMEs to benefit from the growth of markets.
- The migrant worker under this programme is considered a Moldovan national, is a person who has gone abroad for the purposes of employment.
  - 1st degree relative of the migrant can be husband/wife, parents/adoptive sons/daughters.
  - Annex No1 to the Decision of the Government No. 685 of 13 September 2012

Each priority, and the status of implementation of actions within the priorities (completed, partially completed, in progress) are graphically presented below (as per the last report regarding the realisation of the action plan concerning the implementation of the development strategy for SMEs in 2015):

<b>Priority 1</b>	Adjusting the regulatory framework to meet the needs of SMEs
<b>Priority 2</b>	Improving SME access to finance
<b>Priority 3</b>	Development of human capital by promoting competencies and entrepreneurial culture
<b>Priority 4</b>	Improving competitiveness of SMEs and encouraging an innovative spirit
<b>Priority 5</b>	Facilitating the development of SMEs in regions
<b>Priority 6</b>	Developing partnerships in businesses
<b>Priority 7</b>	Developing women entrepreneurship in Moldova

As such, shown by the percentages of completion for each priority, the general completion status of the Strategy and Action Plan can be summarised as in the chart above.

**Figure 8: Strategy and Action Plan**



## Specific Legislation

### **Law no. 179 of July 2016 on Small and Medium-Sized Enterprises:**

- The objective of this law is the establishment of an institutional, regulatory and administrative environment favourable to the development of the small and medium-sized enterprise sector. The law sets the legal, economic and organisational grounds of state support for the small and medium-sized enterprise sector.
- SMEs can benefit from government support provided that no single large company holds more than 35% of the company and as long as they are not engaged in certain specific activities including: imports of products subject to excise duties, investment funds, fiduciary and insurance companies, banks and other financial institutions and gambling organisations.
- Law no. 135/2007 concerning limited liability companies

### **The law stipulates the establishment, operation, reorganisation and liquidation of limited liability companies.**

- Government Decision no. 538/2007 concerning the establishment of the Organisation for the Development of Small and Medium-Sized Enterprises
- The Government Decision stipulates the set-up of the Organisation for the Development of Small and Medium-Sized Enterprises as successor of the fund for the support of entrepreneurship and development of small business and approves the functioning regulations of the Organisation for Small and Medium-Sized Enterprises Development (ODIMM).

## Other relevant legislation

### **Law no. 220 of 19.10.2007 concerning the state registration of legal persons and of individual entrepreneurs:**

- The law stipulates the procedure for the state registration of legal persons and individual entrepreneurs, the procedure for keeping state registers of legal persons and individual entrepreneurs and establishes the legal status of the state registration authority.

### **Law no. 845 of 03.01.1992 concerning entrepreneurship and enterprises:**

- The law establishes the economic operators that have the right to carry out business activities in Moldova and determines the legal, organisational and economic impacts of such activities.

## Support initiatives

### **Programme for attracting remittances into the economy PARE 1+1 is approved by Government Decision no. 972 of 18.10.2010**

- The programme is intended for migrant workers and/or their immediate relatives who want to invest in launching and/or in developing their own business.

### **National Programme for Economic Empowerment of Youth (PNAET)**

- The National Programme for Economic Empowerment of Youth (PNAET) is a programme for young people, aged 18-30, who want to: develop entrepreneurial skills, launch or expand their own business in rural areas (except the Chisinau and Balti municipalities), develop a business in agriculture, manufacturing or services.

### **Efficient Business Management Programme**

- Efficient Business Management is a programme for entrepreneurs of any age who practice economic activities in any legal form that want to increase their skills in entrepreneurship for ensuring the effective management of the business.

### **Credit Guarantee Fund**

- ODIMM's Credit Guarantee Fund provides financial guarantees for obtaining fast loans from commercial banks. Its aim is to provide fast solutions and complex financing needs of enterprises because of effective collaboration with partners in banking.

### **Women in Business**

- The programme is intended for women who are planning to start or expand their businesses, especially in rural areas.

## Implementation

There are various stakeholders involved in the SME policy and strategy implementation process. Among the most important, we list the following:

### **Ministry of Economy**

- Given the permanent evolution of Moldova's economic and political environment and the significant influence from outside, the Ministry of Economy of the Republic of Moldova is currently implementing broad activities and major structural transformations aimed at the legislative, institutional and functional adjustment to the European requirements.

### **The Organisation for Small and Medium-Sized Enterprises development (ODIMM)**

- ODIMM was created in order to sustain and improve the development of the SME sector in the Republic of Moldova and to meet governmental priorities.
- ODIMM is a non-profit non-commercial organisation, with the status of a public institution, governed by public law, created by Government Decision no. 538 dated on 17 May 2007, working under the coordination of the Ministry of Economy and with other central and local public administrations, business associations, business support providers and SMEs.

### **Moldovan Investment and Export Promotion Organisation (MIEPO)**

- Moldovan Investment and Export Promotion Organisation is the organisation of the Ministry of Economy of the Republic of Moldova that has the responsibility for investment attraction and export promotion. The mission of MIEPO is to advise and support foreign investors and the development of external trade and cooperation among Moldovan and foreign companies.

### **MIEPO provides the following services:**

- Information services;
- Investment preparation and Property/Site Identification;
- Supplier & Partner Search;
- Business Visits;
- Consultative Council for SMEs.

## National SME Support Programme

The government of Moldova supports SMEs by providing financial resources through the national initiatives listed below:

### 1. Improving SMEs access to finance

<i>NAME OF THE NATIONAL POLICY MEASURE</i>	<b>PROGRAMME ON ATTRACTING REMITTANCES INTO THE ECONOMY - PARE 1+1</b>
<i>IMPLEMENTING AGENCY</i>	ODIMM
<i>VALUE OF THE PROGRAMME (MLN EUR)</i>	EUR 4.13
<i>START DATE</i>	2010
<i>END DATE</i>	2018
<i>TARGET BENEFICIARIES</i>	Migrant workers or immediate relatives. <sup>(12)</sup>
<i>SHORT DESCRIPTION</i>	SMEs

<i>NAME OF THE NATIONAL POLICY MEASURE</i>	<b>CREDIT GUARANTEE FUND/ INVESTMENT GUARANTEE SCHEME</b>
<i>IMPLEMENTING AGENCY</i>	ODIMM
<i>VALUE OF THE PROGRAMME (MLN EUR)</i>	EUR 2.3 mln
<i>START DATE</i>	2002
<i>END DATE</i>	2024
<i>TARGET BENEFICIARIES</i>	Micro and small enterprises operating throughout the Republic of Moldova.
<i>SHORT DESCRIPTION</i>	The Credit Guarantee Fund aims at facilitating the access of micro and small enterprises to financial resources. This is a continuous programme.

<i>NAME OF THE NATIONAL POLICY MEASURE</i>	<b>NATIONAL PROGRAMME FOR ECONOMIC EMPOWERMENT OF YOUTH (PNAET)</b>
<i>IMPLEMENTING AGENCY</i>	ODIMM
<i>VALUE OF THE PROGRAMME (MLN EUR)</i>	EUR 6.89 mln
<i>START DATE</i>	2008
<i>END DATE</i>	2018
<i>TARGET BENEFICIARIES</i>	Young people, aged 18-30 years
<i>SHORT DESCRIPTION</i>	The National Programme for Economic Empowerment of Youth (PNAET) aims to develop the entrepreneurial skills of young people based on knowledge and the optimal management of resources and by facilitating access for young entrepreneurs to financial resources required to launch and develop their own businesses.

Source:

<sup>(13)</sup> Ministry of Economy

## 2. Improving SMEs business skills <sup>(14)</sup>

<b>NAME OF THE NATIONAL POLICY MEASURE</b>	<b>EFFICIENT BUSINESS MANAGEMENT PROGRAMME</b>
<b>IMPLEMENTING AGENCY</b>	ODIMM
<b>VALUE OF THE PROGRAMME (MLN EUR)</b>	
<b>START DATE</b>	2013
<b>END DATE</b>	Continuous
<b>TARGET BENEFICIARIES</b>	Future and active entrepreneurs who practice economic activities in any legal form.
<b>SHORT DESCRIPTION</b>	The Efficient Business Management Programme is a programme for entrepreneurs of any age who practice economic activities in any legal form and that want to increase their skills in entrepreneurship to ensure the effective management of their business.
<b>NAME OF THE NATIONAL POLICY MEASURE</b>	<b>WOMEN IN BUSINESS PROGRAMME – PILOT PROGRAMME</b>
<b>IMPLEMENTING AGENCY</b>	ODIMM
<b>VALUE OF THE PROGRAMME (MLN EUR)</b>	EUR 2.48 mln
<b>START DATE</b>	2016
<b>END DATE</b>	2019
<b>TARGET BENEFICIARIES</b>	The programme is intended for women who are planning to start or expand their businesses, especially in rural areas and to provide support for women entrepreneurs.
<b>SHORT DESCRIPTION</b>	<p>The programme is geared toward achieving the following objectives:</p> <ul style="list-style-type: none"> <li>• Increasing economic opportunities for women by reducing barriers to initiating or developing a business;</li> <li>• Facilitating access to investment and business development assistance managed by women, designed to complement the financial and non-financial support currently available for women entrepreneurs in Moldova;</li> <li>• The creation of national integrated support for women entrepreneurship development, aimed at different stages of business development: from business planning (set-up) - to newly established enterprises to growing business;</li> <li>• Strengthening the national infrastructure support to SMEs by extending the services offered to reduce their specific obstacles faced by women in business;</li> <li>• Contributing to the achievement of priority policies on gender equality and economic development.</li> </ul>

**Source:**

<sup>(14)</sup> Ministry of Economy, <http://finantare.gov.md/>

### Future measures planned in the national strategy

The main objective of the Small and Medium-Sized Enterprise Sector Development Strategy for 2012-20 is the creation of a favourable business environment, promotion of business culture in the course of SMEs support and assurance of social unity. <sup>(15)</sup>

- To coordinate processes with existing SME policies developed by the European Union;
- To improve conditions for business development;
- To improve quality of products manufactured by SMEs;
- To increase access for SMEs to public procurements and to increase opportunities for them acting as subcontractors;
- To speed up the implementation of business training programmes;
- To consolidate the SMEs role as generating new employment, which will promote differentiation in the economic development of regions.

In the light of the previous measures mentioned above, the Government of Moldova proposes to implement the following priority directions in the period of 2012-20 for the implementation of the proposed objective:

- Adjustment of the regulatory framework to match SME needs;
- Improvement of access to financing for SMEs;
- Development of human capital through promotion of competences and entrepreneurial culture;
- Increase SME competitiveness and the stimulation of innovation spirit;
- Facilitation of SME development in regions;
- Business partnership development.

#### Source:

<sup>(15)</sup> Annex No1 to the Decision of the Government No. 685 of 13 September 2012.

<sup>(16)</sup> Action plan on the implementation of Small and Medium-Sized Enterprise Sector Development Strategy

We have drawn up below a listing of main future strategic objectives planned in the national SME strategy, considering the 4 priorities of the EU4Business Initiative:

**Table 8: main future strategic objectives** <sup>(16)</sup>

EU4BUSINESS PRIORITY	STRATEGIC OBJECTIVE
1. Strengthen the institutional, regulatory and operational environment	<ul style="list-style-type: none"> <li>• Improving the SME regulatory framework</li> <li>• Reducing administrative barriers regulatory costs for SMEs</li> <li>• Optimising regulations on commercial activities practiced by SMEs</li> </ul>
2. Facilitate SMEs' access to finance	<ul style="list-style-type: none"> <li>• Developing innovative financing schemes to SMEs</li> <li>• Ensuring efficient remittance transfer</li> <li>• Attracting long-term credit lines from international financial institutions</li> <li>• Development of credit guarantee system for SMEs</li> <li>• Facilitating SMEs' access to public procurement</li> </ul>
3. Improve SMEs' business skills	<ul style="list-style-type: none"> <li>• Developing and promoting education and entrepreneurial culture</li> <li>• Creating a training support educational infrastructure</li> <li>• Creating an informational and advisory system for SMEs</li> </ul>
4. Improve SME access to market	<ul style="list-style-type: none"> <li>• Skill building and development of technical and innovative SMEs</li> <li>• Facilitate the grouping of SMEs into clusters, incubators, etc.</li> <li>• Promoting intellectual property for SMEs</li> <li>• Facilitating SMEs' access to domestic and foreign markets</li> <li>• Implementing management systems based on international and European standards</li> <li>• Assistance to SMEs in creating innovative business</li> </ul>

## CHAPTER 4:

# GENERAL CONCLUSION

### 4.1 SWOT Analysis

After the meetings held with stakeholders and based on the information included in Moldova's SME strategy, we have drawn up a SWOT analysis of the EU4Business programmes:

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"><li>• Improve the policy and regulatory framework</li><li>• Facilitate access to finance</li><li>• Increase the level of business culture and vocational training</li><li>• Improve access to market</li></ul>	<ul style="list-style-type: none"><li>• Inefficient communication and dissemination of SME strategy</li><li>• Non-harmonisation of monitoring and reporting systems in the sector</li><li>• Lack of national budgetary co-financing</li></ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"><li>• Growing attention of the state towards problems and needs of the SME sector</li><li>• Development of investments in public-private partnership</li><li>• Pro-European vector of national development</li><li>• Expansion of the sphere of international cooperation; development of transborder cooperation for SMEs and regional infrastructure along with consolidation of contact points</li><li>• Constant development of internationalisation of the SME sector</li><li>• Constant development of technologies and innovations, as well as opportunities for their assimilation</li></ul>	<ul style="list-style-type: none"><li>• The trend of growing fiscal burden</li><li>• Instability of legislative framework</li><li>• Considerable youth migration and lack of inflow of young specialists in the field of entrepreneurial activity</li><li>• Shadow economy growth</li><li>• Pressure in connection to international competition</li><li>• Insufficient participation of business persons in educational programmes on business</li><li>• No consolidated register that would make it possible to analyse the activity of all small and medium-sized enterprises working in the country.</li></ul>

The SME climate in Moldova has considerably improved due to an increased focus on the direction of legislative simplification, expansion of e-government services and the simplification of business registration.

Due to Moldova's strengthening of EU relations through the signing of the Association Agreement including provisions establishing the Deep and Comprehensive Free Trade Area (DCFTA), many funding options to stimulate SME activity have arisen and Moldova's key representatives should ensure the legal and regulatory grounds for their proper usage.

There are many international banking organisations (ERBD, EIB, the World Bank, etc.) that closed an agreement with European Commission with a view to managing funding by mediating the relationship with local Moldovan banks. One of the major obstacles in this respect is the lack of reliability (i.e. transparency,

solvency) of the banking system. On the subject of the banking system, in fact, at the end of 2016, Moldova signed a new agreement with the International Monetary Fund worth of 180 mln dollars that is focused on solving urgent issues related to the governance and stability of the banking sector. More specifically, the new IMF programme is focused on rehabilitating the banks of systemic importance and radically improving the framework for the regulation and surveillance of banks, including changing the regime of sanctions.

Another issue encountered in relation to SME funding is the lack of guarantees provided. For instance, the Organisation for Small and Medium-Sized Enterprises (ODIMM), which is the main entity that manages national funding for SMEs, does not cover the role of a guarantee fund by providing a first-call guarantee. The lack of such first-call guarantees is hindering the system.



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