

STRONGER ECONOMY

#eu4business



EU4Business

# Investing in SMEs in the Eastern Partnership

## Republic of Moldova

COUNTRY REPORT  
JUNE 2019



10 YEARS 

**EaP** | Eastern  
Partnership

## 1. Recent economic developments in the country

The Moldovan economy maintained robust growth of 4.0 per cent in 2018, supported by expanding household consumption and exports, albeit at lower rates compared to the previous year, and strong capital investments. A further increase in remittances and a 9.9 per cent rise in real wages helped uphold disposable incomes and, consequently, household consumption. Growth of gross fixed capital formation accelerated from 8 per cent in 2017 to 14 per cent in 2018. It was accompanied by 16 per cent growth in construction output. Alongside trade and industry, the construction sector was one of the main drivers of growth on the production side. On the back of rising investments and private consumption, the growth of import volume outpaced that of exports.

The current account deficit almost doubled to 10.5 per cent of GDP in 2018 from a year earlier and was mostly financed by an increase in foreign currency household deposits in the banking sector. As a result, the Moldovan leu remained relatively stable during the course of 2018 and foreign reserves were sustained at US\$ 3.0 billion, covering 5.6 months of imports. Inflation slowed from an average of 6.6 per cent in 2017 to 3.0 per cent in 2018 and further to 2.5 per cent year-on-year in the first three months of 2019. In March 2019, a 63.9 per cent stake of Moldincombank, the second largest bank in Moldova, was acquired by a strategic foreign investor.

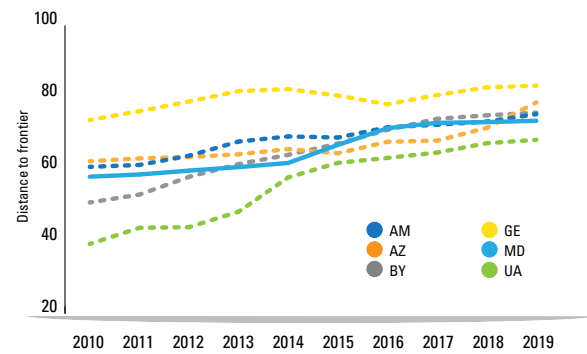
This marks the completion of the clean-up of the banking sector, as non-transparent shareholders have now been replaced by fit and proper foreign strategic investors in all three systemic banks. However, long-standing structural and demographic challenges are compounded by current uncertainties regarding the inconclusive outcome of parliamentary elections in February 2019 and delays in disbursements of funds from international partners. The EBRD forecast Moldova's real GDP to grow by 3.5 per cent in 2019 and by 3.8 per cent in 2020.

(<https://www.ebrd.com/where-we-are/moldova/overview.html>)

## 2. Business environment: Republic of Moldova and the EaP

The six Eastern Partner countries have been making a steady progress making the business climate more conducive for SMEs to enter and operate. This overview of the Doing Business indicator of the World Bank shows the improvement over the years: gradually closing the wide gap with the best performing countries of the region and the world. Moldova started off at below 60% of that distance to frontier but stands now at over 70%.

Doing Business - Distance to frontier, EaP

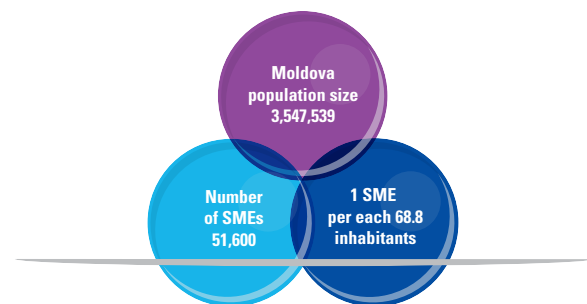


Source: Doing Business, World Bank, [www.doingbusiness.org](http://www.doingbusiness.org)<sup>1</sup>

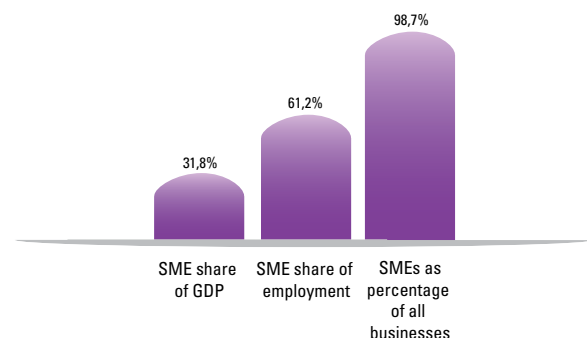
## 3. National SME performance

### a. Share of SMEs in the economy

Moldova has one of the lowest number of SMEs per capita across EaP, but one of the highest share of employment generated by the SME sector. Also their share in GDP, albeit far from the percentage of all businesses, comes to almost a third of the national economic output.



State of affairs of SMEs in 2017



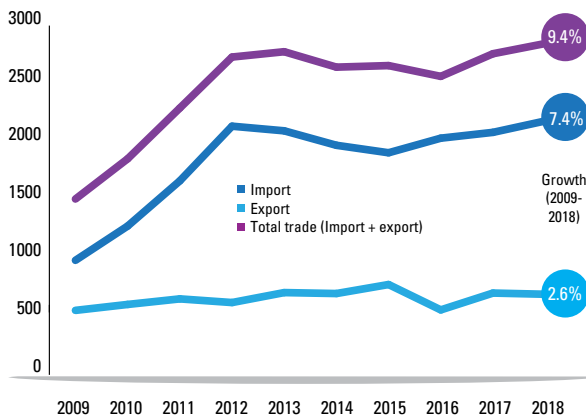
Source: OECD Eurasia Competitiveness Programme and Official Yearbook of the National Statistics Institute, 2018

<sup>1</sup> An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. For example, an ease of doing business score of 75 in Doing Business 2018 means an economy was 25 percentage points away from the best regulatory performance constructed across all economies and across time.

## b. Trade with the EU

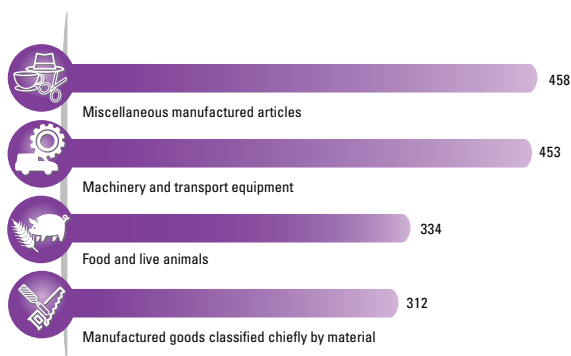
There has been a faster growth in imports from the EU than exports, although trade both ways has been on the rise. Moldova currently imports EUR 2.1 billion and exports 653 million of goods and services from and to the EU respectively.

Trade figures (EUR million)

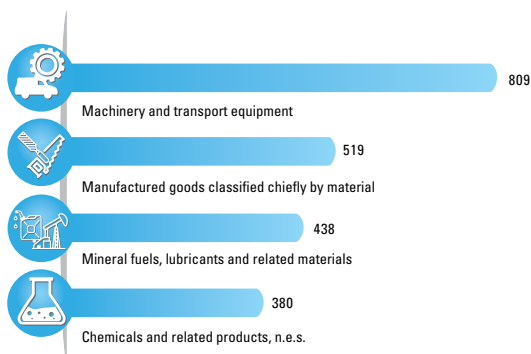


Below are the top products exported from Moldova to the EU and those imported the other way.

Top exported products in 2018 (EUR million)



Top imported products in 2018 (EUR million)



All trade data from DG trade

([https://webgate.ec.europa.eu/isdb\\_results/factsheets/country/](https://webgate.ec.europa.eu/isdb_results/factsheets/country/)).

## 4. SME legislation and institutional framework

The Government of Moldova has started implementation of the Action Plan 2018-2020 of Moldova's SME Development Strategy 2012-2020, the strategic document guiding SME policy developments in the country.

The basic building blocks to support private sector development in Moldova are in place, with the Ministry of Economy and Infrastructure being the main institution responsible for their implementation. In recent years, Moldova further advanced in putting in place policies and programmes to streamline the institutional and operational environment for SMEs and strengthen the delivery of SME support programmes.

### Key SME legislation in the country

- Government decision on the approval of the Strategy for the development of small and medium-sized enterprises sector for the years 2012-2020, adopted in 2012
- Law No. 179 on Small and medium-sized enterprises, adopted in 2016

### Name and date of establishment of the SME agency

Organisation for the Development of SMEs/ Organizatia pentru dezvoltarea sectorului IMM (ODIMM), 2007

### Achievements in improving the SME climate

- Moldova has made important progress to lighten the overall administrative burden on enterprises, and the public authorities are now required to conduct regulatory impact assessment (RIA) for business-related legislation.
- ODIMM has operational autonomy, succeeded in stabilising its budget (with substantial donor support), and has broadened the range of business support services delivered to SMEs.
- In the area of SME access to finance, the Credit Guarantee Scheme has been strengthened and the online registration system for movable assets expanded and operationalised. Moldova also strengthened microfinancing and leasing activities by introducing a law to regulate all non-bank financing.

EU4Business: From Policies to Action progress (OECD) At the **country-level**, the OECD assists the Government of Moldova by supporting the implementation and monitoring/evaluation of the SME Development Strategy 2012-20 and its 2018-2020 Action Plan.

In particular, the OECD supports the government in implementing policies that promote internationalisation of SMEs operating in the food-processing sector by: (a) fostering linkages between local suppliers and investors operating in the food-processing and retail sectors, and (b) enhancing the capacity of local SMEs to access foreign markets.

In addition, the OECD builds capacity in Moldovan institutions to build a results-based monitoring system with key performance indicators for the implementation of the SME Development Strategy 2012-2020.

The OECD will summarise country-level project findings in a policy paper, which will provide a basis for discussion at the peer review of Moldova at the next OECD Eurasia Competitiveness Roundtable, which will take place in Tbilisi in March 2020.

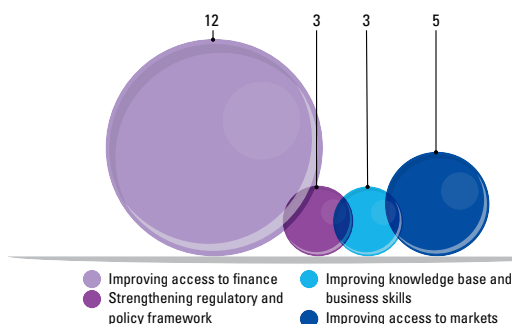
At the **regional level**, Moldova participates in the third round of the SBA Assessment, which will result in a regional benchmark to be published by March 2020. The assessment is led by the OECD in a joint effort with the European Commission, EBRD and European Training Foundation. The new exercise is more ambitious than the previous editions, and relies on a new methodology that goes beyond the scope of SME policy to capture overall business environment conditions, including core elements in the areas of competition, business integrity and contract enforcement. An important milestone in this process took place in Chisinau on 4 April 2019, consisting of a public-private reconciliation meeting to discuss preliminary findings and progress in SME policy since the 2016 assessment. For this activity, the OECD is working closely with the Ministry of Economy and Infrastructure of Moldova to support the government in strengthening its public-private dialogue activities.

## 5. EU4Business portfolio for the country

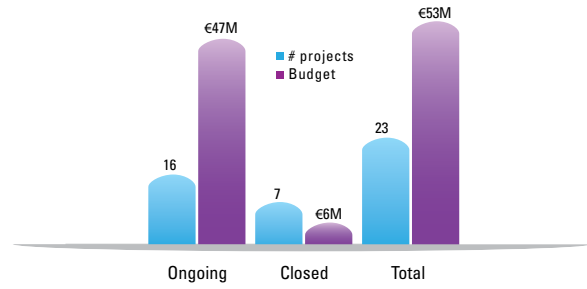
Total number of projects in the Republic of Moldova is 23, of which the bulk focuses on facilitating access to finance. Of all 23, seven have been closed and the others are ongoing, in the total value of approx. EUR 52.7 million.

### a. Impact to date

Projects by priority area - Moldova



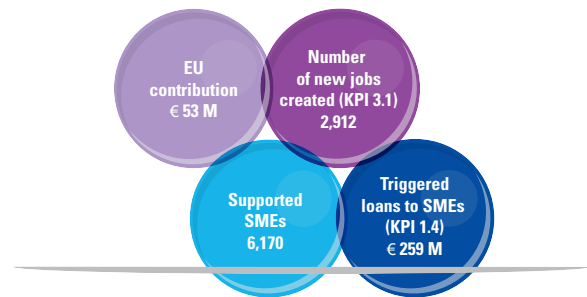
Moldova country portfolio



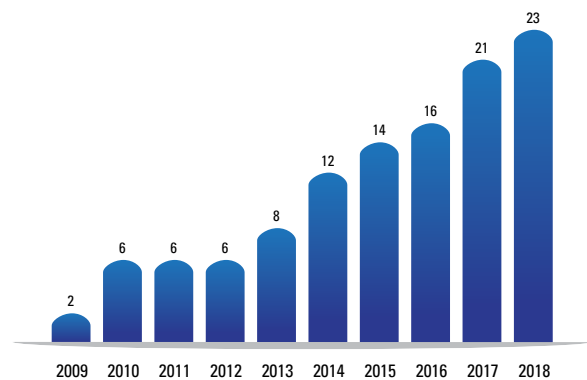
### b. Implementation progress - 10 years of EU4Business in the country

The funds invested by the European Union triggered additional loans and financial assistance in the country, effectively quadrupling the assistance. This benefitted 6,170 SMEs and created estimated 2,912 jobs, beyond the sustained ones. The number of projects in the country and with it EU's assistance has been on the steady rise over the EU4Business ten years of operation.

Implementation progress



Number of projects in Moldova



Source: EU4Business Secretariat project database

## 6. Stakeholder assessment

### a. Findings from the SMEs - Focus group assessment, Chisinau, 18 March 2019

#### i. Key issues

The type of support most frequently obtained by participants was financing/funding and consultancy services for improvement of management skills and accessing external markets. Some of the participants have had a positive experience, while others have not been satisfied with the quality of the programme support, mainly due to the low quality of the consultancy service provider. Shortage of qualified workforce and the absence of a favourable labour force regulatory framework have emerged as an issue too.

Access to information regarding the financial instruments and their availability remains scarce, with most of the participants not knowing where the support is available: ODIMM, partner banks, donor agencies etc. This is even more complicated in rural areas outside Chisinau.

Paperwork is often very complicated, not just when applying, but also when monitoring performance. Some SMEs therefore opted for a regular bank loan, instead of the EU4Business financial instruments, for a greater ease in obtaining the loan and fewer conditions to it (linked technical assistance). Some SMEs have capitalized on their own experience in accessing financial instruments and have acted as a point of contact and paid service in this new market niche.

SMEs do not favour being showcased as “success stories” and they have avoided such visibility in the past, e.g. being mentioned at EU4Business website, in the media etc. for fear of ‘uninvited’ inspections potentially walking in. As a result, those who have benefitted from the programmes prefer to stay under the radar and not to share their experience.

#### ii. SMEs’ own needs assessment/priorities

The needs identified as requiring priority support are: knowledge on certification/standardisation of goods and services including certification procedures, and support in accessing external markets (export). Train-the-trainer type of support for consultancy service providers might resolve the shortage of such knowledge.



Support in expanding to new markets should be much more elaborate, e.g. in-depth analysis of external market demand and identification of potential partners, not just the countries likely to import Moldovan products, where ODIMM could take the lead. Some of the access to finance issues remain high on the agenda too: this often relates to the shortage of working capital.

The remaining matters are of regulatory nature, where the government is seen as a conduit for removal of non-tariff barriers, stimulatory fiscal framework and as competition enabler (including protection against grey economy and state monopolies). More clarity and transparency are needed on potential fiscal incentives (especially related to VAT refunds) for both services and goods.

## b. Views of the implementers - Moldova EU4Business Roundtable, Chisinau, 19 March 2019

### i. Key issues

Firstly, a united front to address SME issues was acknowledged including close liaison between key implementers and national authorities. Further coordination and timely information sharing, based on the round table format is always welcome. SMEs often assume that accessing support programmes is difficult, without even trying.

Increasing the visibility of EU support instruments should not come at the price of the local fiscal authorities' harassment of successful businesses. In addition to cultural reticence among SMEs, beneficiaries feel as if they are being 'placed under a magnifying glass', with the authorities potentially soliciting erroneous fines or bribes, and therefore avoid going public as success stories.

Businesses prefer grants and there is still resistance to risk taking. However, according to Moldovan laws, grants are treated as income and taxed accordingly. This has been a factor discouraging SMEs from applying for support.

Business fairs, face to face meetings with potential partners, industry representatives and specialists provide greater value to SMEs than general management courses. This direct knowledge exchange and such experts are scarce, while there is a large demand for it.

### ii. Suggestions of the Roundtable going forward

A one-stop shop for information regarding support instruments should be created (currently ODIMM has a new business portal, while the DCFTA website provides broader data and is the best resource depository). It was also suggested that this one-stop resource could be designed based on the SME life cycle stages (from idea to closure).

Post-support monitoring should be enhanced in order to identify the success of the support provided and lessons learned, due to the still insufficient understanding of all the net effects.

Individualised train-the-trainer consulting support might be beneficial for certain segments. Support for youth and vulnerable groups, especially in rural areas, is seen as lacking, while SMEs generally benefit from increased access to innovation, IT tools and related skills. Reaching out to companies outside the capital should engage the rayon local administrations more often, given their familiarity with the region's specific needs, jointly with BSOs or with some form of direct SME involvement.

### c. Summary of recommendations for next planning cycle

- More targeted, expert support, rather than general collective management trainings.
- Market expansion through sufficient understanding of certification and standardisation procedures.
- Train-the-trainers to expand the network of specialist consultants in high demand.
- DCFTA portal to act as the central repository of support packages and a knowledge hub.
- Accessing SMEs in rural areas and vulnerable groups by engaging local authorities and BSOs.
- Sharing knowledge through successful peer-to-peer exchange in entrepreneurs-only events.
- Greater coordination (also beyond EU4Business) and post-implementation assessment of impact so as to better tailor the future programmes.
- Government efforts in levelling the playing field and further transparency is greatly appreciated by SMEs.



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## Moldova:

Learning to conquer the European market



“

*What I felt was fear, not knowing where to start. Things have become much clearer now, and I'm going back home with the idea that it's worth exporting to the European Union market.”*

### Iana Ursu

Manager of Biser.md, an online sales platform for handicrafts

Advice for Small Businesses

Moldovan Chamber of Commerce and Industry (CCI) was established with EU4Business support, to facilitate investment and trade in the Eastern Partnership countries. As part of this initiative, the EBRD in cooperation with the CCI organised two trainings in April 2018 that stimulated Moldovan entrepreneurs to develop their businesses and increase their competitiveness when accessing the European market.



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## Moldova:

In support of wine tourism



“

*The wine industry is the future of Moldova.*

*Our country can't make cars, but we can make good wine, so we must invest in this.”*

### Vadim Burussus

Winemaker

DCFTA Initiative East



Investments from the European Investment Bank under the EU4Business 'Filière du Vin' project enabled Poiana Codrilor SRL to buy modern equipment that allows them to produce European-quality wine. As a result of EU support, not only has a centre of wine tourism near Ulmu been opened, but new jobs have been created.

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