Key points

**Past & future SME performance**: SMEs in the Republic of Moldova account for almost 66% of total value added, compared to 57% in the EU, while the SME employment share at 63% is slightly below the EU average of 66%. In the period 2008-15, the value added generated by Moldovan SMEs increased by more than 50% in nominal values, however, 2015 economic contraction resulted in decrease of SME value added by almost 10%. Despite the volatility in value added, employment in the SME sector remained nearly unchanged in 2008-2016. Real GDP grew by a robust 4.5% in 2017 and Moldova’s economy is expected to sustain the growth momentum with GDP growth of 4.2% and 3.7% in 2018 and 2019, respectively. Growth will be supported primarily by private consumption and, to a lesser extent, export growth.

**Implementing the Small Business Act for Europe (SBA)**: The overall SBA profile of the Republic of Moldova continues to show a mixed picture. The principles of ‘responsive administration’ scores above the EU average; at the same time, ‘second chance’, ‘internationalisation’ and ‘environment’ linger (well) below the EU average. Progress has continued mostly in the area of ‘responsive administration’. The constraints in data availability for a limited number of indicators need to be kept in mind when interpreting the overall results.

**SME policy priorities**: Particular emphasis is required for the development of a comprehensive ‘SME test’. Businesses are also still required to provide the same information multiple times to different governmental bodies. There are also significant gaps in ensuring a ‘second chance’ for honest entrepreneurs who failed. Mechanisms to coach entrepreneurs and a national campaign to limit the stigma of failure are needed. In terms of ‘responsive administration’, the most important deficit concerns the lack of a one-stop-shop structure. In addition, public procurement procedures and requirements should be friendlier to SMEs, and measures should be put in place for SMEs in the event of late payments. On access to finance, the government should find external financing sources to support SMEs’ development. A comprehensive GAP analysis on women involvement in SMEs is needed including opportunities for the development of Social Entrepreneurship.

About the SBA fact sheets
The Small Business Act for Europe (SBA) is the EU’s flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and ‘responsive administration’ to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs.
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14. Key points

Small and medium-sized enterprises (SMEs) are the backbone of the Moldovan economy and have significantly contributed to job creation and economic growth over the last decade. SMEs represented approximately 99.8% of all enterprises in 2016, and micro-enterprises accounted for 93.0% of the total business population. Over the last three years, a sharp increase in the number of micro enterprises (1-10 employees) contrasts with stagnating numbers in all other company size classes. In terms of value added, SMEs in Moldova play a larger role in the non-financial business economy compared to the EU average as SMEs accounted for almost two thirds of total value added. In terms of SME employment, SMEs employ 63% of the persons employed, which is 3 percentage points less than the EU average. In 2016, SME productivity — as calculated by the ratio of value added to employment — was around EUR 6700 per person, which represents only 16% of the EU average. In 2015, almost 40% of all SMEs in Moldova operated in the wholesale and retail trade sector, which constitutes the core of SME activity. SMEs are unequally distributed across the country, with about 65% operating in Chisinau, the capital, and 47% in Balti, the second largest city. Entrepreneurial activity is significantly more pronounced in Chisinau, with 42 SMEs per 1 000 inhabitants versus just 6.7 SMEs per 1 000 inhabitants outside of Chisinau. Efforts to foster the growth and development of the SME sector will necessarily require sustained improvements to the policy environment.
Ongoing reform efforts are reflected in a more conducive regulatory environment for starting and operating a firm. In the 2018 World Bank ‘Ease of Doing Business’ ratings, the country has confirmed its progressive climb and stands at the 44th position, up from rank 52 in the 2016 edition.

2. SBA profile

The overall SBA profile of the Republic of Moldova continues to show a mixed picture, on the four principles taken into consideration. For the principle of ‘responsive administration’, Moldova continues to score above EU average. At the same time, the policy framework for the principles ‘environment’, and ‘second chance’ are recorded slightly lower than EU countries on average. Finally, ‘internationalisation’ exhibits Moldova’s lowest score as well as the biggest gap with EU benchmarks. Moldova has progressed in the area of ‘responsive administration’ at an even faster pace than EU average since 2008. However, scores for ‘second chance’ have been declining over the same period. For the two other principles, progress could not be calculated due to limited available indicators. Generally, the constraints in data availability need to be kept in mind when interpreting the overall results.

This fact sheet will present a selection of indicators on policy measures adopted or announced in 2017 or during the first months of 2018.

The SME Sector Development Strategy 2012-2020 demonstrates the strong commitment to strengthen the development and growth of the SME sector in the Republic of Moldova, and envisages implementation of policies to support SME development in a number of areas. Recently, the government approved the Action Plan for 2018-2020, which outlines 8 priority objectives, including development of women’s entrepreneurship and SME innovation.
SBA performance of Moldova: state of play and development from 2008 to 2018

Legend:
1. Entrepreneurship
2. ‘Second chances’
3. ‘Responsive administration’
4. State aid & public procurement
5. Access to finance
6. Single market
7. Skills & innovation
8. Environment
9. Internationalisation

Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review:
3. SBA principles

3.1 'Entrepreneurship'

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any general conclusions on the performance on entrepreneurship vis-à-vis the EU.

3.2 Second chance

'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly.

Overall, Moldova ranks below the EU average, and scores for this principle have not changed substantially since 2016. Moldova scores just above EU average on the insolvency framework index, which measures the insolvency proceedings for creditors, the management of debtors' assets and reorganisation proceedings. It shows that Moldova has similarly efficient insolvency regulations in place as most EU countries. However, the country lags slightly behind in terms of time and cost involved to resolve insolvency.
3.3 ‘Think Small First’ and Responsive administration

The ‘think small first’ principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply. ‘Responsive administration’ refers to public administration being responsive to the needs of SMEs.

Overall, the Republic of Moldova performs above the EU average on these principles, having substantially improved its score over the last ten years. It scores particularly well when compared to the EU average on the indicators ‘time required to transfer property’ and on ‘cost required to transfer property’. The Moldovan administration fosters the establishment of business with low minimum capital requirements to start a business and below EU average number of procedures. However, it is still relatively costly to enforce contracts in Moldova, while government regulation is more burdensome compared to EU average. Paying taxes takes only little more time in terms of labour hours as it does in the EU on average. Furthermore, companies in Moldova only make 10 tax payments per year, compared to an EU average of 11.5. This constitutes a major simplification from the 21 taxes that businesses still had to pay in 2016. Compared to last year, almost all indicators remained at their previous levels. Slight simplification has been registered in the number of procedures required to start a business. In 2018, start-ups had to undertake one procedure less than in the previous year.

3.4 State aid & public procurement

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any general conclusions on the performance on state aid & public procurement vis-à-vis the EU.
3.5 Access to finance

The strength of legal rights index is the only indicator available for the principle 'access to finance'. It measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. Showcasing the same score as last year, Moldova also scores above the EU average.

However, bank lending is still relatively underdeveloped in Moldova compared to regional peers and the EU. Domestic credit to the private sector in Moldova only represented 30% of GDP in 2016, the third lowest value in the Eastern Partnership region after Belarus (26%) and Azerbaijan (27%), and substantially lower than the EU average of 140%.[6] Deposits were about 45% of Moldova’s gross domestic product – higher than most peer countries in the Eastern Partnership region but far below the EU average, which stands at 80%. However, banks still constitute the main finance providers for SMEs, accounting for more than 90% of the total supply of credit with alternative sources of funding remaining limited. Microfinance institutions as well as savings and credit associations are slowly emerging as potential alternative sources of SME financing, especially in rural areas, largely because of the banks’ high collateral requirements. Other sources of finance, such as leasing, are not yet fully developed in the country.

3.6 Single market

As Moldova is not an EU Member State, there is no relevant comparable data regarding the single market.

3.7 Skills & innovation

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any general conclusions on the performance on skills & innovation vis-à-vis the EU.

3.8 Environment

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.
On environment, Moldova generally performs below EU average and its performance deteriorated compared to the previous assessment. In particular, the share of SMEs that offer green products or services nearly halved between 2015 and 2017, falling from 35% to just 17%. Similarly, the percentage of SMEs with a turnover share that is more than half generated by green products or services has fallen from 38% to 23% over the same two-year period, which is, however, still higher than the EU average of 20%. It is noteworthy that SMEs have virtually not benefited from any public support for the production of green products. In 2017, 2% of SMEs have benefitted from public support measures for the production of green products. While this represents an increase, it is still below the EU average of 25%. Even though the share of SMEs that have benefitted from public support for resource-efficiency actions seems very high (87%), SMEs in Moldova are far less likely to actually have taken resource efficiency measures: to wit, 70% of them have done so compared to 89% for the European peers.

3.9 Internationalisation

Moldova’s performance in the internationalisation SBA principle is below the EU average. Moldova underperforms significantly in the indicator on the availability of information, which reflects a lack of trade information, including on internet and enquiry points. Another area for improvement is involvement of trade community, where Moldova lacks sufficient structures for consultations, including established guidelines, and notice-and-comment frameworks.

On the other hand, Moldova performs broadly in line with the EU average with regards to the ‘advance rulings’ indicator, which relates to prior statements by the administration requesting information about the classification, origin, valuation method, etc., as well as with regards to the indicator measuring border agency co-operation. Concerning border control procedures and automation, Moldova underperforms its EU peers.

4. Interesting initiative
Below is an example of a successful government initiative to support SMEs in Moldova:

PARE 1+1

The objective of the Programme “PARE 1+1” is the mobilisation of human and financial resources of Moldavian migrants to support sustainable economic development of Moldova’s less developed regions. It aims to increase the level of remittances investments, improve financing opportunities of SMEs and stimulate investments in rural areas.

The programme is based on a pairing scheme for business financing, in which the Government of Moldova matches amounts invested by successful applicants into their businesses up to a maximum grant limit of MDL 200,000. This arrangement therefore envisages that within the financing limit, a business owner would bear half of start-up/expansion costs while the Government would cover the other half. Successful applicants who are granted financing are able to choose a lump sum payment of the total amount granted, or payments made over instalments.

The programme was established in 2010 and it is implemented by ODIMM (Moldovan Organization for the Development of Small and Medium Enterprises). The programme has been funded by EU through the ESRA Budget support programme, DCFTA Sector Reform Contract and is currently funded by EU under a direct grant (as of 01/06/2018 for 36 months)

References:

www.odimm.md
Important remarks

The European Commission produces the SBA fact sheets, which combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of national policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures considered relevant. They do not and cannot reflect all measures the government has taken over the reference period.

SME Performance Review:

grow-spr@ec.europa.eu

Small Business Act:

Entrepreneurship and SMEs:
https://ec.europa.eu/growth/smes

Endnotes

1 The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/


3 The 2018 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

4 The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2018. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2018. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

5 The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. Only those measures were selected which are expected to have the highest impact in the SBA area in question.

6 OECD, Monitoring SME policy reforms in the Republic of Moldova (2016).