

STRONGER ECONOMY

#eu4business



EU4Business

# Investing in SMEs in the Eastern Partnership

## Republic of Moldova

COUNTRY REPORT  
JUNE 2018



**EaP** | Eastern  
Partnership



# Table of contents



EU4Business

<b>Introduction</b>	<b>1</b>
<b>SECTION 1:</b>	
<b>General economic overview of the country</b>	<b>2</b>
1.1 Macroeconomic indicators	2
1.2 Trade volume with the EU - exports	2
1.3 Business climate	3
<b>SECTION 2:</b>	
<b>Share of SMEs in the economy</b>	<b>4</b>
<b>SECTION 3:</b>	
<b>Overview of the EU4Business portfolio in Moldova</b>	<b>7</b>
<b>SECTION 4:</b>	
<b>Donor support to the SME sector in the country - looking beyond EU4Business</b>	<b>10</b>
<b>SECTION 5:</b>	
<b>SME survey results</b>	<b>11</b>
<b>SECTION 6:</b>	
<b>Highlights of the round table discussion</b>	<b>12</b>

# Introduction

The EU4Business Secretariat is proud to present the third Country Report prepared under this initiative, following the first in late 2016, and second May 2017 publication. Country Reports analyse the developments and achievements of the EU4Business initiative in each of the Eastern Partnership countries (EaP). They offer a review of the SME sector in the country, as well as of the economic and business environment in which enterprises operate. In addition, the 2018 Country Reports add two major new elements, namely the results of an SME survey and the outcome of round tables of EU4Business stakeholders carried out in each EaP country.

The national round tables were held between late February and early April 2018, and involved all the EU4Business stakeholders in each country, as you will see in Section 6 of the Report. The conclusions offer a unique perspective arrived at following a detailed joint consideration of all the EU4Business pillars and initiatives.

The results of the survey of SMEs benefiting from the EU4Business finance facility are presented in Section 5. They provide an overview of the impact of EU4Business, as perceived by the beneficiary enterprises themselves, at least a year after the lending operation has been completed.

We have also conducted a thorough analysis of some 150 documents and discussed these with a multitude of stakeholders to arrive at the impact assessment of the EU4Business portfolio, as presented in Section 3.

Finally, the two opening sections provide an economic overview by country and the state of affairs of the SME sector.

The EU4Business Secretariat has received tremendous research assistance from our country teams, based in the EY offices throughout the Eastern Partnership region, while the EU Delegations provided substantial support and data for the publication. DG NEAR was closely involved in report editing and verification. To all of them we extend our sincere thanks.

We anticipate that the materials presented here will support the reform discourse in each of the six countries, contributing to further enhancement of the SME climate and regulatory framework. The Secretariat looks forward to facilitating new national-level discussions on how further to improve effectiveness and delivery of EU support to the EaP's SME development and to work on new and innovative support instruments.

Boris Divjak, SME Expert  
EU4Business Secretariat  
[www.eu4business.eu](http://www.eu4business.eu)



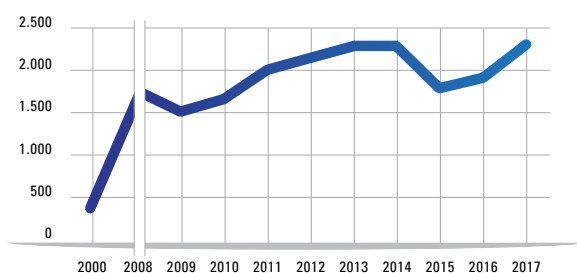
# General economic overview of the country



## 1.1 Macroeconomic indicators

The Republic of Moldova<sup>1</sup> is a small lower-middle-income economy. Although it is the poorest country in Europe, it has made significant progress in reducing poverty and promoting inclusive growth since the early 2000s. It has maintained a steady course of growth over the past years, with an average five-year GDP per capita growth rate of around 4.5%, driven by consumption and fuelled by a strong agricultural output and remittances. The latter account for a quarter of GDP, among the highest shares in the world.

Figure 1.1: Republic of Moldova GDP per capita (current US\$)



Source: Macroeconomic indicators, World Bank

“European integration has anchored the Government’s policy reform agenda but reforms that are good on paper have yet to materialize. A vulnerable political system, polarized society, adverse external environment, and skills mismatch in the labour market, as well as climate-related shocks, are Moldova’s biggest economic challenges. Transparency, accountability, and corruption are crucial concerns. Business confidence is low and the macroeconomic framework remains vulnerable.”<sup>2</sup>

Data for the first quarter of 2018 indicate that the economy may have shifted into a higher gear. Retail sales rebounded sharply, growing at a strong pace in the first two months of the year; slowing inflation has buoyed households’ real incomes. A stronger inflow of remittances, thanks to the upbeat global economic backdrop, is further contributing to higher incomes.

Industrial production also picked up steam at the outset of the year after a significant loss of momentum in December. Significant additional funding from the European Union is pending resolution of several key political and legislative matters.

In comparison to the other Eastern Partnership countries, Moldova has had slightly higher growth rates, while the inflation rate equalled the regional average (6.3% in 2016, according to the latest WB figures available). Its export levels are the lowest among the six in absolute terms with a limited increase over the past decade. Crediting of the private sector is lower in only two countries and the levels are steady, between 30 and 40%, according to the IMF, even though the lending interest rate is among the lowest in EaP and dropping further – slightly over 10% in 2017, according to the WB. Exchange rate and currency fluctuations were minimal over the past five years, so a Euro is worth 19.5 Moldovan Lei in mid-May 2018.

## 1.2 Trade volume with the EU – exports

This country report has been developed with a focus on the trade flows from Moldova to the EU. When looking at Moldovan trade, a distinction is made between large-scale sectors and smaller scale sectors in which SMEs specifically are especially active. Those sectors, with a comparatively high potential for growth based on full access to the internal market, and in which SMEs are especially active, receive special analysis in this section.<sup>3</sup>

The selected trade flows to the EU from the six EaP countries amount to an annual average of €5 billion. The impact of these trade flows on the economy of the EaP countries amounts to 1.6% of total GDP, and 1.4% on total employment in the EaP countries. Moldova as a country benefits most from EU exports compared to the other EaP countries, with an impact on GDP of 8% and an impact of 9% on employment.

<sup>1</sup> Hereinafter referred to as Moldova

<sup>2</sup> The World Bank in Moldova, <http://www.worldbank.org/en/country/moldova/overview>

<sup>3</sup> Panteia, (2018), Study: Key sectors and BSOs - Step 1 selection of the sectors). Data on trade flows sourced from the International Trade Centre (ITC).



With regard to Moldovan exports, the vast majority of the goods exported from Moldova to the EU are from large-scale sector categories and industries. The exports from these large-scale categories and industries amounted to around €5.5 billion between 2009 and 2016. The remaining €500 million consisted of exports from smaller sectors, that are more likely to see higher levels of SMEs active. For the most part (97%), these smaller trade categories are potential growth categories, specifically for SMEs when they gain full access to the European internal market. The economic sectors affected most positively by increased trade with the EU, and which are likely to have higher SME activity, are those of food and beverages, electrical machinery, and other manufacturing activities. These sectors belong to the following trade categories:

- Electrical machinery and equipment (categories in HS85);
- Edible fruits and nuts (categories in HS8);
- Oil seeds and related (categories in HS12);
- Furniture and related (categories in HS94).

The direct impact of these selected trade categories on value added in these sectors amounts to €313 million, with employment increased directly by 46,000 jobs.

These direct production impacts imply increased economic activity in other segments of the economy because of supplies between those directly affected enterprises and other enterprises. In Moldova, the total impact of gross production from those selected export trade categories amounts to €604 million, and the impact on gross value added amounted to €406 million. In total, 53,000 workers in Moldova are directly or indirectly dependent on exports of the selected goods to the EU. In other words: 8% of Moldovan GDP depends on this trade flow, and 9% of total employment.

### 1.3 Business climate

Positioned 44th globally, the Republic of Moldova is an exact median of the six EaP countries in the Doing Business rankings of the WB by the ease and costs of business regulations. Georgia remains far ahead and Belarus is somewhat better than Moldova, but they are all well ahead of Ukraine, which trails the group. However, the business climate has steadily been improving over the past five years, according to the indicator.

Of the various topics that Doing Business covers, Moldova is most advanced with property registration and starting a business (20th and 23rd position globally, respectively), while lagging behind with construction permits, where it is ranked among the global laggards – 165th out of 190 countries ranked.

Corruption is a critical bottleneck for greater investment, as shown by the Transparency International's Corruption Perception Index, where Moldova's score has varied in the past 5 years between 30 and 36 (with 100 being the best and 1 worst), placing it in 2017 in 122nd position globally among 180 countries, with the current score of 31.<sup>4</sup>

The national SME agency – ODIMM – is very engaged with national SMEs and runs a number of support schemes (see the SME gap assessment below). Therefore, they access a large number of businesses regularly and engage in discussions with them. They could be a very useful conduit for this public-private sector dialogue by channelling the recommendations of the private sector in how the investment climate in the country can be improved. As there are few business associations beyond the national Chamber of Commerce, where the voice of small businesses can be heard, ODIMM has institutionally an important role and responsibility to continue processing such feedback and engaging with SMEs, including reporting back on the plan of action, in order to gain an even greater trust and confidence and work towards a sounder business environment with all stakeholders involved.

<sup>4</sup> According to the Corruption Perception Index of Transparency International: [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017)

## SECTION 2:

# Share of SMEs in the economy

According to the most recent data published by National Bureau of Statistics, in 2016 SMEs contributed a total of 31.4% of total GDP in Moldova<sup>5</sup>. Data for the same year shows a total of 51,600 SMEs<sup>6</sup> registered in the Republic of Moldova or 98.7% of total registered enterprises.

The SME sector employs as of 2016, a total amount of 313,500 persons or 61.2% of total workforce. The table below outlines these figures, segregated by SME category i.e. micro, small or medium-sized enterprises.

Refer to section 2.2 of this report for further information regarding the activity of SMEs in the Republic of Moldova.

The main activity sectors for SMEs in the Republic of Moldova are the following:

- Agriculture, forestry and fishing
- Manufacturing industry
- Production and supply of electric and thermal energy, gas, hot water and air conditioning
- Water distribution; sanitation, waste management, decontamination activities
- Construction

- Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and catering
- Information & communication
- Real estate
- Professional, scientific and technical activities
- Other

Data published by the National Bureau of Statistics of the Republic of Moldova for 2016 shows a total number of 51,600 SMEs<sup>7</sup> registered. 20,300 or almost 40% of total number of SMEs are active in the wholesale and retail trade. The second largest category represented by SMEs is the “other” with manufacturing and professional services, scientific and technical activities representing the third largest category of SMEs with an equal amount of 4,400 SMEs each (or 8.5% of the total number of SMEs).

In terms of income, SMEs have generated a total of nearly €2.5 billion in 2016<sup>8</sup>. The main contributing sectors are wholesale and retail trade with approximately 49% and manufacturing industry with approximately 11%. The graph below shows the income of each sector, expressed in million MDL.

5 <http://statbank.statistica.md/pxweb/pxweb/en/40%20>

Statistica%20economica/40%20Statistica%20economica\_\_13%20CNT\_\_CNT060/CNT060082.px/

?rxid=b2ff27d7-0b96-43c9-934b-42e1a2a9a774

6 <http://www.statistica.md/newsview.php?l=ro&idc=168&id=5685>

7 <http://www.statistica.md/newsview.php?l=ro&idc=168&id=5685>

8 <http://www.statistica.md/newsview.php?l=ro&idc=168&id=5685>

Table 2.1: Indicators related to the SME activity in 2016

Indicator	Number of units		Number of employees		Income from sales		Profit (+), loss (-) before tax
	Thousand units	Percentage of total in RM %	Thousand people	Percentage of total in RM %	Thousands (Lei)	Percentage of total in RM %	mil. Lei
<b>Total SMEs of which:</b>	<b>51.6</b>	<b>98.7</b>	<b>313.5</b>	<b>61.2</b>	<b>124,954.4</b>	<b>41.5</b>	<b>5,878.5</b>
<i>medium-sized enterprises</i>	1.3	2.5	101.5	19.8	41,303.7	13.7	2,101.3
<i>small enterprises</i>	5.8	11.0	107.2	20.9	50,079.3	16.7	2,229.8
<i>micro enterprises</i>	44.5	85.1	104.8	20.5	33,571.4	11.2	1,547.4



EU4Business

## REPUBLIC OF MOLDOVA: tile manufacturer targets export markets with EU support



“  
*Getting affordable funds from the EU is an excellent opportunity to modernise the production process within our company. The equipment we use is obsolete and no longer meets the current quality requirements. Upgrading our equipment allows us to achieve a much better quality of production and, at the same time, to increase productivity. For us, that means the key to success.*

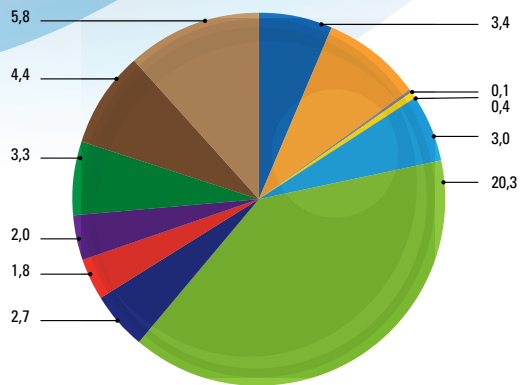
”

Petr Popov, production manager at tile producer Keramo Rosso. The company obtained funding from the EU4Business-EBRD Credit Line to step up production for export, with a loan of €280,000 to invest in new equipment. This has boosted production capacity, increasing the quantity of tiles produced by 98 per cent. Most of the extra tiles are for partners in Romania, but Keramo Rosso is now also negotiating with new companies in the UK and US.

**Success stories:**  
EU4Business-EBRD Credit Line

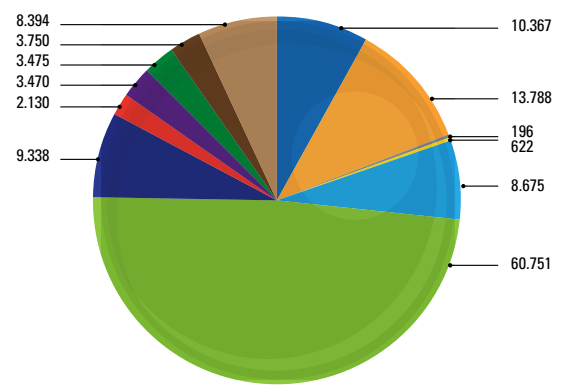


Figure 2.1 Total number of SMEs distributed by sector of activity



- Agriculture, forestry and fishing
- Manufacturing industry
- Production and supply of energy, gas
- Water and waste management
- Construction
- Wholesale, retail trade; maintenance of vehicles
- Transportation and storage
- Hospitality and catering
- Information & communications
- Real estate
- Professional, scientific and technical activities
- Other

Figure 2.2 Total number of SMEs distributed by sector of activity



- Agriculture, forestry and fishing
- Manufacturing industry
- Production and supply of energy, gas
- Water and waste management
- Construction
- Wholesale, retail trade; maintenance of vehicles
- Transportation and storage
- Hospitality and catering
- Information & communications
- Real estate
- Professional, scientific and technical activities
- Other





## SECTION 3:

# Overview of the EU4Business portfolio in Moldova

At the time of writing this report, the EU4Business initiative has supported 22 different projects. In 2017, 17 of the projects were running, and 5 had been completed. Across the four key areas of support, 11 of the total number of projects were set up to Improve the Access to Finance, 3 in Strengthening policy and regulatory frameworks, 3 in Improving knowledge based and business skills, and 5 projects were set up in improving access to markets.

The table illustrates the distribution of projects in the different support areas, which of those are ongoing and which are completed.

Table 3.1: EU4Business project portfolio

PROJECTS in MOLDOVA				
Area of support	A: Improving Access to Finance	B: Strengthening policy and regulatory framework	C: Improving knowledge base and business skills	D: Improving access to markets
Ongoing projects	10	2	2	3
Closed projects	1	1	1	2
<b>Total projects</b>	<b>11</b>	<b>3</b>	<b>3</b>	<b>5</b>

Source: EU4Business database

These ongoing projects are supported by an EU contribution of approximately €41,800,000. Most financial support has gone to supported projects in access to finance, followed by projects on improving access to markets.

Of the projects aimed at the improvement of access to markets, two have come to an end, while three more are ongoing. Improving knowledge base has two ongoing projects and one which has closed. Approximately €5,530,000 have been spent so far on the completed projects.

These projects have an impact on enterprises and SMEs in Moldova. The table below summarises some of the key impacts of the projects implemented under the EU4Business programme in terms of the number of enterprises supported, the number of enterprises

who received loans, the total value of the loans provided via the programmes, and the number of jobs created through programme support. Between 2009 and 2017, 367 enterprises have been supported directly and indirectly through the programmes implemented, 4,214 received loans, accumulating to a total value of €194,400,950, and creating 2,595 additional jobs in enterprises, with many more supported.

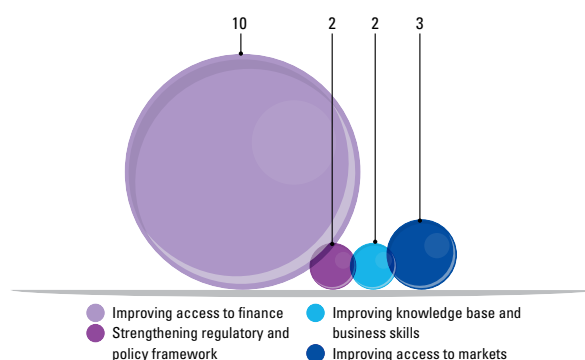
Advisory projects have also had a strong impact on businesses, as in the example of the Litera publishing house<sup>9</sup>, which has expanded its customer base through online sales as a result of the consultancy.

Table 3.2: EU4Business impact in Moldova

Impacts of EU4Business support	2009-2015	2016-2017	2009-2017
Number of enterprises supported with advisory services	172	195	367
Number of enterprises which received loans	4,003	211	4,214
Total value of loans disbursed (Euro)	178,052,279	16,348,671	194,400,950
Number of new jobs created	1,380	1,215	2,595
Number of jobs supported and sustained (advisory and financial projects)	14,653	5,106	19,759

Source: EU4Business database

Figure 3.1 Ongoing projects by objective



Source: EU4Business database

<sup>9</sup> For the related success story, please refer to page 9.

### Textbox 1 – DCFTA leads to compliance with EU directives

DCFTA programmes in Moldova have seen concrete achievements in firms that invested in compliance with EU directives, giving them the opportunity to open up EU markets, as in the case of tile producer Keramo Rosso now exporting to the EU as a result of investment in technology funded under the EU4Business-EBRD Credit Line (for the related success story, please refer to page 5). Other examples of investments funded under the Credit Line include:

**Furniture production company** Dragos SRL upgraded its machine park with an automatic machine for furniture production. This investment will improve the quality of products, increase the speed of production and improve Health and Safety in the factory.

**Freight forwarding company** Marsof Logistics invested in the purchase of a new semitrailer, improving its service quality and meeting EU directives on environmental protection.

**Packaging** firm Salviana SRL invested in a modern packaging machine, which increases product quality, health and safety of employees and productivity. With this investment, the company moves closer to fulfilling EU directives on packaging and can support its own clients in Moldova to supply their produce in compliant packaging.

**Agricultural company** SC Marineanca-Agro SRL invested in new tractors and seeders, and now benefits from reduced fuel consumption, reduced pollutant emissions and moves closer to meeting EU Standards.

**Roof tiling and rainwater system company** IM RoofArt SRL upgraded its production, fully aligning with EU standards. This will allow the company to increase its exports to EU markets while also decreasing its per unit production cost.







EU4Business

## REPUBLIC OF MOLDOVA: taking the world of books online



“

*The EBRD advisory team guided us throughout the process, from application to completion, and the website was successfully developed in line with the consultant's recommendations. The financial help was vital, we couldn't have succeeded without it. So the virtual bookstore would have remained an unfulfilled dream.*

”

Veronica Vidraşcu from the Litera Publishing House in Chişinău received help from the EBRD's Advice for Small Businesses programme with EU funding to develop an online bookstore, allowing the publisher to reach rural areas, to cut costs and be able to offer cheaper books online.

Success stories:  
Advice for Small Businesses



# Donor support to the SME sector in the country - looking beyond EU4Business

Only a dozen ongoing projects have been identified that focus on strengthening the role of SMEs in Moldova, which attests to a relatively scarce donor presence in the area of entrepreneurship in the country. The known totals of all other projects are only a fraction larger than the total of EU4Business projects that are ongoing in Moldova. That makes the outreach and impact of EU4Business all the more important.

Currently, the largest donor is the multilateral International Fund for Agricultural Development (IFAD), that lends under IDA terms. Their focus is largely on agribusinesses and rural SMEs. The loan is channelled through several national commercial banks and typically provides a source of financing for applicants, with co-financing requested. The idea is to help smaller firms navigate through the supply chain and utilise various steps of production more efficiently in order to increase competitiveness. This is complemented by a US Government leasing facility aimed at farmers who need to renovate their machinery, equipment, inventory, etc. Finally, the list of loans ends with a credit line from the national government that supports investments in agriculture with specific but not exclusive interest in the wine sector, which also lends via 13 banks operating in the country.

Grant programmes largely look at increasing the value added to SMEs in strategic sectors, primarily agribusiness, but also certain niches with high growth potential: export-oriented industries, youth or women entrepreneurs, value chain development, innovation and technology transfer, etc. They are channelled through the project implementation units set up jointly by the donor and the national authorities, ODIMM as the SME agency, NGOs, BSOs (particularly sector representatives), or the donors themselves. Grants rarely distort other market strengthening efforts and mostly aim at strengthening capacities, educating and training, fair participation, enabling the target audience to add value or engage in a new niche or activity, or developing intermediaries and consultants who can then work with the ultimate beneficiaries or for procurement of their services. The project size varies but is mostly multi-million. A noteworthy matching grant project is aimed at Moldovan migrant workers who launch or develop a business back home in Moldova using remittances from abroad.

Finally, EU funds have been combined with the national revenues to form a National Guarantee Fund providing partial financial guarantees that support loan applications with the following groups: youth entrepreneurs, family businesses and export companies, all receiving guarantees under different terms, if successful applying.

Comparing these interventions to the suggested gap assessment as portrayed by the national round tables and other analyses deployed by the EU4Business Secretariat, the main needs are being met by definition. The key issue is speed of implementation and disbursement, which in turn depends on the speed of reforms, stability of the banking sector and the local absorption capacity. This is undoubtedly a process that will take time, especially given the macroeconomic and systemic reforms that are almost a prerequisite. EU4Business could retain its focus on agribusiness, but also increase its efforts in the export niche and support for meeting DCFTA criteria.

Moldovan SMEs find it very difficult to engage in exports and access to the EU market is dominated by a few. Supporting the others to engage in value chain development, clustering etc. would increase their market viability and strength and enable them to start exporting. For this, a number of EU4Business projects have been put in place, but the emphasis remains on access to finance, and less so on knowledge and markets. This might be for reasons of inadequate communication and outreach, slowness of ongoing projects' implementation or perhaps inadequate support to the other pillars of EU4Business.

A range of instruments is needed beyond the actual funds to support business development: specialised training and business handholding in form of know-how and consultancy work, larger guarantee funds, particularly as many of the entrepreneurs have little starting capital etc. Enabling easier access to the EU market through business matching, participation in fairs and accessing specialised online facilities might be a relatively small investment yielding comparatively high growth.

## SECTION 5:

# SME survey results

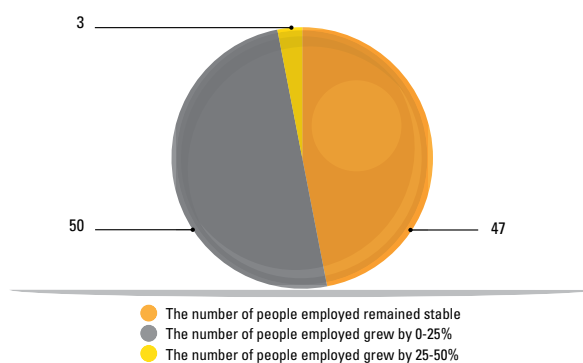
Thirty SMEs – all beneficiaries of the financial products of EU4Business – were surveyed in Moldova in the period March-April 2018<sup>10</sup>: 70% of those were limited liability companies and 30% were individual entrepreneurs. Roughly a third comes from the manufacturing sector, a third from retail, followed by services and agriculture. A vast majority were in operation for more than 10 years prior to taking the loan, and their employee size varies, mostly standing at 10-25. All the respondents borrowed in 2016 through the SME Finance Facility project.

It is very interesting that the vast majority of respondents (80%) have no idea that the funds originate from the EU4Business programme or from the EU. They are simply aware of the bank from which they borrowed and for 100% of them it was the point of entry into the programme. Despite much praise in Moldova for the borrowing in local currency through EU4Business, 97% of respondents borrowed in foreign currency, and they mostly obtained the full amount applied for. 57% believe the terms were better than the otherwise market terms (27% see them as being worse and 17% no different).

In the case of Moldova 70% of respondents needed the funds for purchase of equipment and 30% for business expansion, with none using the loan dominantly for working capital. However, as a result of this expansion, 50% of these SMEs increased their labour force by up to 25% (of whom very few were women, the lowest percentage in EaP). An equal half of respondents replied that the loan contributed to a significant extent to company expansion.

<sup>10</sup> A total of 130 SMEs were surveyed in five countries of the EaP (Armenia, Belarus, Georgia, Moldova, Ukraine): 30 companies in the three countries with DCFTA status and 20 in the other two. Initially, the key implementers provided twice as many SMEs, from which firms were contacted until the target number of interviews had been completed. The firms were chosen randomly, but a precondition was that they had taken an EU4Business financed loan at least one year before the beneficiaries' lists were prepared. In the countries where different projects were being run, the SMEs approached were from a proportional mix of such projects (provided via EBRD, EIB and KfW).

Figure 5.1: Impact of loan on employment



Source: EU4Business database

Only 40% of these SMEs export abroad, mostly to the EU (83%, most likely to Romania, although not specifically stated), but only 17% of all exporters ship a majority of their products outside Moldova. Exactly half of these export less than 10% of their outputs. Half of them have increased their exports since they engaged with EU4Business, but to a varying degree, up to 50%. One firm actually started to export for the first time as a direct result of the financial package from EU4Business. This is why the majority of surveyed exporters indeed see the loan as a major trigger for their increase in exports. About a third would export more if they could be assisted in locating an appropriate trade partner in the EU, and to a lesser extent if the various tariff and non-tariff trade barriers could be overcome.

The majority of the companies saw their turnover increase by up to 50%, and 2 of them more than 50%, although a third saw no change. The loan was helpful in that respect, but only for 2 companies was it crucial to increase turnover. If they would borrow again, the loan would mostly aim at more equipment or working capital, not so much investment in technologies and knowledge. Moldova has another striking difference with the rest of EaP countries, namely the high percentage of firms that mostly rely on the owner's own capital – 73% – and much less on loans from banks or non-banking institutions.

# Highlights of the round table discussion

An overwhelming conclusion of the round table meeting held in Chisinau on 27 February 2018 was that the EU4Business initiative of the European Union successfully removes the obstacles encountered by SMEs, through funding, support and training that helps small businesses reach their potential. The meeting, attended by 31 EU4Business stakeholders present in Moldova, concluded that lending in local currency was particularly useful and that low default rate showed the products were well designed. Nonetheless, several key points were identified by participants for a possible follow-up as a way to further strengthen the impact of EU4Business.<sup>11</sup>

- The SME definition prohibiting companies with more than 250 employees from accessing EU4Business programmes could be altered (with an appropriate waiver from the eligibility rules), e.g. for those sectors which are strategic for the economy of Moldova;
- Final beneficiaries would like to see interest rates fall further, with the loan maturity increasing marginally (engagement over a longer period) as well as investment in under-industrialised parts of the country. It is estimated by the commercial banks that SMEs could consume a 20% larger loan portfolio, even under the existing lending terms;
- Retro financing should also be eligible. It should be considered whether access to finance products could include the investment of the beneficiary made up to 6 months before Loan Agreement. The EIB SME lines normally allow retro financing up to six months because it understands the amount of time required to complete the procedures with financial intermediaries and for the loan commercialisation;

- Purchase of buildings is not eligible for access to finance programmes. If the building is strictly associated with investment projects, it could be considered as eligible. The EIB lines exceptionally allow the financing of buildings if these are required for the investment to work;
- The programmes available via the EU are not considered compatible if two finance facilities are combined at once, e.g. “EU4Business EBRD credit Line” and “InnovFin” (guarantee tool). The inability to combine two programmes/instruments of this sort for the same beneficiary significantly reduces the utilisation of both facilities. It should be clarified with the EC and further on with Implementation Agencies what are the possibilities to combine several access to finance programmes for one project/beneficiary. The EIB has no issue when financial intermediaries combine EIB loans with EIF guarantees as they are separate institutions;
- ODIMM is a public institution that runs support programmes for the SME sector, covering specific target groups such as migrants, young entrepreneurs, women and rural entrepreneurs. They provide a wide range of services and regional infrastructure for SMEs and one of the main financial instruments is the Credit Guarantee Fund that ensures access to finance for SMEs by issuance of state guarantees. ODIMM programmes are complementary to existing business incentives, preventing investment overlaps, while further synergies with the EU4Business programmes are welcome;
- Finance could be combined with a risk sharing facility as a synthetic tool. The guarantee facility “First Loss Portfolio Guarantee” (FLPG) via the EIB and EIF has a limited budget. The limitation of the EIB/EIF budget is set by the Commission and the regional approach. The EIB cannot increase the available lines unless the Commission increases the amount of their facilities. In Neighbouring Countries, the EIB acts upon mandates;
- Financial leasing should be considered as eligible tool under EU4Business. Leasing to some extent may solve the collateral issue. The EIB agro lines allow leasing financing and even, some leasing companies are/were part of the EIB’s accepted financial intermediaries;

<sup>11</sup> The national round tables were held in the capitals of all six EaP countries between late February and early April 2018, and engaged all the EU4Business stakeholders in each country: the EU Delegations, the IFIs involved, national counterparts – SME agencies and Ministries of Economy, commercial banks involved, business associations, key implementers and any other related party, totalling between 25 and 45 persons per round table. The discussions focused on the ongoing achievements across all four pillars of EU4Business, but the content was tailored to the priorities of each country. The discussants were specifically guided to address the forthcoming challenges anticipated and to propose solutions for the way forward.



- EU4Business Programmes could be supported by additional advantages, for instance tax and customs exemptions (ex. similar with “Fruit Garden”, “CEP II” based on Government decision No.246);
- There remains a need for more support to borrowers in terms of practical and hands-on advice on: assessment of the actual needs, how to invest, what to buy with the loan funds, as well as guidance on the standards;
- EU4Business should increase focus on mature companies that are ready to export;
- An ex-post evaluation should be carried out for support programmes such as business incubators;
- Communication and promotion of EU4Business should be more aggressive. This can be done in cooperation with different business associations, such as the Chamber of Commerce, Moldova Investment and Export Promotion Organization or sectoral manufacturers of meat, dairy products, etc.;
- Promotion of EU4Business programmes should also be organised among the diaspora;





**THIS PROJECT IS FUNDED BY THE EUROPEAN UNION**

This publication has been produced with the financial support of the European Union. The contents of this publication are the sole responsibility of the Consortium led by EY and can in no way be taken to reflect the views of the European Union.